

Why Don't They Listen?

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Introduction

The short answer is: “We don’t speak their language.” The long answer is considerably more complex but if anything is going to change it needs to be answered. This paper will suggest what needs to be changed, why it needs to be changed and how to do it.

Some History

The history of the SHE profession is rooted in the insurance industries and regulation. Few senior level executives have any “boots on the ground” experience in SHE. It is probably safe to say that they didn’t learn anything in school either since their courses of study would be unlikely to include anything meaningful about SHE. This suggests that they are not going to understand “safety speak” and so will probably be “turned off” by it rather than “turned on” by it.

Current Events

There is a growing concern about SHE related subjects such as global warming, terrorism, and the spread of diseases to mention just a few. But, the opinions of SHE professionals is rarely solicited and their voices never heard on the TV. They are absent from commissions studying such things as the Challenger disaster and WMD discernment failures.

The Future

Everything is moving faster; everyone is talking more and listening less. There are growing concerns about ethics and many organizations are embedding ethics “enforcers.” Leaders want more and better metrics and want them in real time, on time, and they want them to be easy to understand and relevant. “Dashboards” are becoming very popular and interest in their application will probably just grow.

If we don’t learn from the past, be actively involved in current events, and get ready for the future – preparing for it – we will be left standing on the sidelines thinking, “What happened?”

Speaking of Money

Historically, the international language – well understood by everyone – is dollars or money. If SHE professionals don’t understand this language, they will be left standing around essentially deaf. This means that every person seriously involved in loss prevention needs to understand annual reports and financial statements and everything associated with them.

What We Say

We have mostly talked about the cost of injuries and have usually equated those costs to the need to produce more “widgets” to cover the costs. We have often resorted to indirect costs to make our case and then done so in ways that strain credibility.

What They Want to Hear

They want to get the answers in terms they understand and that relate to their needs and the needs of their leaders and constituencies. The things that concern them are return on investment, price to earnings ratios, and growth potential – the things that tend to dictate organization value (stock price) and dividend payments.

What We Should Say

The goal and objective of every CEO is the same: They are charged with providing stockholders with the best return on their investment (ROI) that is possible in the business in which they are engaged. The best single way to achieve that objective is to avoid unnecessary losses and in so doing minimize the cost of risk (COR) of the organization. This fact is rarely recognized and even less frequently discussed in any detail. That needs to change; this expose will initiate that change.

The COR is comprised of net insurance premiums, retained losses, risk control, and loss prevention expenses and administrative costs. There are three exposures that are considered: property, tort liability, and occupational disease or injury. There are six types of costs within these three exposures: insurance premiums; retained losses; internal administration; outside services; financial guarantees; and fees, taxes, and other similar expenses.

The *Ernst & Young Benchmark Survey* suggests that loss prevention should be the number one priority of almost every CEO. Yet it is clearly not: Why is that?

There is not just one reason just as there is almost never one reason for any accident or dysfunction. Here are the main reasons that this important fact has been overlooked:

- It has been deliberately – and very effectively -- masked by special interests in the insurance industry.
- Very few CEOs have even a working knowledge of the rudimentary aspects of insurance and loss prevention...and, they have been discouraged from changing that situation.
- The depiction of costs and their impact on profitability have been crude and rarely synthesized in a cohesive and comprehensive fashion.
- The “big lie” that these costs of risk are essentially a cost of doing business and are not very controllable has been accepted.
- The concept that culture cannot be directly correlated with performance and even if it could, it can't be measured is generally accepted: It is wrong!

The *Benchmark Survey* reveals the “tip of the iceberg” but does it in such a fashion that the proper response is rarely elicited. The COR is described in terms of dollars per thousand dollars of revenue. Since the COR goes directly to the bottom line, it would be more appropriate to describe it in relationship to profits.

The accumulated costs are based on what an insurance department can easily capture, not what is in fact the real cost. For example: The time spent by employees on safety meetings, job observations, and safety education and training are never captured; The resources expended for

outside services such as consultants and contractors who incur and pass on safety costs are not captured; The retained losses only include those losses captured on claims status reports and have no way of accounting for costs associated with minor incidents paid for locally. Property damage that goes into maintenance budgets is never accounted for. It is not unreasonable to assume (and justify) that the real COR is much larger than the *Benchmark Survey* suggests and may even be several times the numbers reported.

Never the less, even the numbers reported are eye openers when placed in the proper context. The COR ranges from a low of \$0.27/1K for Banking and Finance to \$27.45/1K for Transportation and Shipbuilding. The average for all industry is \$5.25/1K.

If we take a hypothetical case using the all industry average, this is what happens:

Assuming a company with \$1B in revenues (and recognizing that we just need to take off zeros if we want to apply the analysis to smaller enterprises) their COR would be \$5.25M. The average gross profits of American Industry are reported to be about between 4 and 5 percent; that would be close to \$50M for our example company. For the purposes of our example we will assume that the best COR for an industry group is one-quarter of the average and the worst is four times the average. This is conservative and there are many examples of companies that do better than 25% of the average and others that are over four times the average.

The company at one-quarter (25%) would be spending \$1.31M and the company at four times would be spending \$21M. Hence, the difference between world-class and worst in class performance could be almost \$20M or effect profits up to 40%. In the best case, the company returns about \$54M (less taxes) to the stockholders: In the worst case about \$34M. And, the COR has a ripple effect on everything from quality to labor relations. That ripple effect may be more important than the out-of-pocket costs. And, remember that the COR reported is probably only a fraction of the real-total COR. If we captured that, the spread could be double or triple the \$20M or spell the difference between business failure and best-in-class performance.

Obviously, this impact of COR on stockholder dividends and equity or ROI is even more dramatic in industries that traditionally have a higher COR. Large business groups that effect almost all of us are Construction with a COR of \$9.50/1K and Health Care at \$16.01/1K.

Using the same assumptions as those above but with the COR incurred in Construction and Health Care, we get the following:

In Construction, the best in class makes \$57.1M to return to stockholders; the worst in class makes just \$21.5M to return to stockholders. Again, this difference is just based on the understated COR and could be much larger.

In Health Care, the best in class makes \$62M and the worst only \$2M. If we take into account the expanded purview, don't we justify the statement that loss prevention should be the number one priority of every CEO (particularly those in traditionally high COR industries)?

The loss prevention process is essentially driven by insurance concerns that only represent about 4% of the loss prevention equation -- those interests stand to benefit from CEOs operating in the dark so the special interests are not about to shed light on this subject; so, we must.

In order to correct this industrial dysfunction that is costing American Industry and everyone who has an interest in American Industry vitality (everyone who lives in America) trillions of dollars,

we must have an accurate method to capture the true cost of risk and methods to reduce those costs.

No CEO who ignores these facts or fails to act on them is worth what they are being paid. No matter where a company stands with regard to its COR, it can always aspire to be best in class and can always slip to the lowest levels. Hence, the spreads suggested are realistic and so, the best single way for a CEO to achieve their objective of optimizing stockholders ROI is to avoid unnecessary losses and in so doing minimize the cost of risk (COR) of the organization.

How They Will React

It depends upon who “they” are. If they are in risk management or the treasury and have been part of the “cover-up”, they will do whatever is necessary to see that this information is not brought to light. If they are in a responsible position and willing to act on new thinking and information, they will see to it that these facts gain wider understanding and credence.

What It Will Mean to Us

If the above information becomes widely understood, the importance of the insurance companies, brokers, insurance managers, and related disciplines will be diminished. The stature of those involved in mitigating loss will be dramatically increased and enhanced in every way. Business leaders will realize that the way to save money and increase profitability and organization value is not found in different ways to finance loss but to eliminate the losses and that can and should be done. The focus will move to enlightened and world-class safety instead of emphasizing new ways to fund losses.

Speaking of Culture

If we are going to speak about culture, we need to be able to describe it; we need to understand just what it is and to be able to explain that to others so they can grasp it and start to work with the related concepts. We need to understand that culture evolves from the beliefs and values of an organization...because: “A belief is not merely an idea the mind possesses, it is an idea that possesses the mind.” We need to understand that success is tied directly to attributes and that the best way to acquire desired attributes is to encourage the beliefs and values that will automatically lead to the acquisition of the desire attributes. That is because we need to change “from the inside out” instead of “from the outside in” if the effort is going to be enduring. We need to do things that are consistent with modern management thinking. The latest thinking suggests less inspection is better than more inspection because we want to “do it right the first time.”

What We Say

We generally say what everyone else says: “Culture is a soft science and it can’t be measured although we do know it is important.” Some of us have resorted to using the current hot word (CULTURE) in all our conversations and advertisements. We haven’t changed what we are doing or the services we provide – we just added a new word to how we describe what we do. This is not lying; it could better be described as disinformation. Everything we do affects culture so we can reasonably claim anything we do changes culture and we can probably even say it improves it -- if we are any good at what we do. The problem here is that we don’t *really* know...unless we can measure. My company used to own *Prince Matchabelli* fragrances. *Wind Song* was one of the fragrances and it was advertised as unique to each user. They neglected to mention that since we each have a different basic body odor, every fragrance is unique to each

user. This worked well for years so disinformation can be very effective – even though it isn't really the whole truth.

What They Want to Hear

They want to hear that we can measure safety culture accurately --based on sound logic and objective information. They want to hear that we are really doing something new and unique and that it will not only reduce injuries but that the principles can be applied in ways that will increase productivity and profitability. They want to hear that this methodology can be customized to their current culture and that it will work with and not against other things they are doing that they like or to which they are heavily committed.

What We Should Say

Before we say anything, we should self-educate ourselves on what is being said about this timely and important subject. We should be reading business magazines like *Fortune* and *BusinessWeek* and the *Wall Street Journal*: That is what they are reading. For instance, the February 13, 2006 issue of *BusinessWeek* had one article entitled "The New Ethics Enforcers" and another "Giving the Boss The Big Picture." These articles are very important to SHE professionals. We should know who the top ethics officers are in organizations and working closely with them. We should have simple and meaningful and understandable numbers that every executive would consider to be essential to have on their "dashboards," The second article is all about dashboards and if we don't know about them, we'll be left in the dust once again.

The *BusinessWeek* article lists the ways to "Score Points with a Dashboard." They are (1) Start Slowly; (2) Pick the Right Info; (3) Business Should Drive; (4) Avoid Data Overkill; and, (5) Keep a Personal Touch. We are uniquely qualified to provide a new SHE measurement item on safety culture that not only informs about the past but also literally predicts the future. We should not miss this opportunity.

We need to say we can measure safety culture and the number we generate should be the most important number on the "dashboard" of every CEO. Then we should say we can demonstrate why that is so. Finally, we should deliver on the promise.

How They Will React

Once executives and decision makers realize that we read what they read and can talk intelligently about concepts in current business literature and books, they will gain respect for us. When we can talk intelligently about culture, that respect will be magnified. When we show them that we can measure and manage safety culture, and that the concepts used can be applied to other disciplines and general organization excellence, they will recognize what we have known for a long time: What we do is as valuable or more valuable to an organization than any other discipline.

What It Will Mean to Us

What will happen is that SHE will become a reservoir of human resources. High-potential employees will be cycled through the function. Career opportunities will be enhanced in every way for SHE professionals. Culture measurement and management will be the "Holy Grail" of business and we can either drink from the cup or stand on the sidelines and watch other – less well-prepared and less worthy people -- drink. What you do is important; how you do it is more important; at the end of the day the only thing that may matter is when you do it. Or, timing is everything in life. The time to learn about and embrace culture measurement and management is NOW for SHE professionals.

Why is Culture the Portal to Career Enrichment for SHE Professionals?

Over the years, many windows have opened to us. We have failed to jump through. Now another window is opening. I can only hope we won't miss this opportunity. We let quality control professionals take the know-how we developed and use it to enhance their stature in organizations. The book *Quality is Free* by Crosby could have been written about safety by a safety professional substituting safety for quality throughout the book. Deming was talking as much about safety as he was about quality. His fourteen principles are more about sociology than about quality. SHE professionals have been applying this thinking for decades. But, we have not gotten credit for our work.

Now everyone is talking about culture. In his book *Who Says Elephants Can't Dance*, Gerstner says that when he started at *IBM* he thought culture was important and when he finished (10 years later) he realized that it was the only thing that was important. Collins and Porras wrote *Built to Last* and Collins followed that with *Good to Great*. These books prove that organization culture is what separates the winners from the losers in business. We all know that culture is what separates the winners from the losers when it comes to loss prevention. Neither Gerstner nor Collins suggests ways to measure culture or codify the process to improve culture. No one else in the business community seems to have done it either. We have the "laboratory" and the knowledge to do what business leaders have so far been unable to accomplish; we can measure safety culture and improve it consciously instead of unconsciously; we can do it by design instead of by default. We can lead the way instead of being caught in the "slip stream" behind everyone.

In short, the reason we can use culture to elevate ourselves is because we have an open field to run in and we have a better idea where the obstacles are than most other disciplines. And, we've actually got the answers: We just need to apply them.

Summary and Conclusions

Money has been a driving force since it was invented. There is no reason to believe that will ever change. We have not known enough about it nor have we talked the language or adequately understood the language. That has been a problem for us and still is. We need to do better and we can and should. But, there is an emerging second generally understood new language. We can be a part of not only understanding the lexicon but also developing it. We should not miss this opportunity.

Culture is HOT! We know more about it than any other discipline. If we move quickly, we can gain richly deserved recognition that has to date eluded us. We need to be familiar with all the latest business books on the subject and read the daily and weekly business publications. Then we need to use available systems to demonstrate that safety culture can be measured and managed. Once we have accomplished that, things will get very interesting.