

EHS Today

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The Magazine for Environment, Health and Safety Leaders



Eye Safety

**DON'T
SEND YOUR
WORKPLACE
EYE WELLNESS
PROGRAM DOWN
THE DRAIN**

Plus

Respiratory Protection

Budgeting for Safety

Hand Protection

Prequalifying Your Business Can be Money in the Bank

The experience modification factor and its link to creating a competitive advantage in the marketplace is easy to overlook, since employers tend to be somewhat uninformed when it comes to workers' compensation. Although it certainly is a significant employee benefit on one hand, it also is a powerful business benchmark that carefully is scrutinized by those who are evaluating possible business partners.

Due to today's economic conditions, more companies are looking for anything and everything they can do to give themselves a competitive advantage. Often that advantage can be the result of their experience modification factor (MOD).

The MOD is the biggest driver of a company's workers' compensation rates; the lower the MOD, the lower the rates. Therefore, companies with lower modifiers have a lower productivity cost structure. This lower cost structure leads to being more competitive, which leads to securing more jobs and more profitability. The exact opposite is true as well: Higher MOD leads to higher costs and it is more difficult to compete for work. However, there are more dire consequences for those with high MODs: No work.

Let's face it: in today's environment, companies and risk managers are using the MOD as a significant determining factor to disqualify firms from bidding on projects. If an experience modifier is over 1.00 for example, the company may be viewed as unsafe, and therefore does not get the job. Companies know they need to do something about their MOD, but do not know what to do. The good news is that the MOD is as manageable as any other business function, as long as people are motivated to do so.

Here are a few examples of what we're talking about:

- A machine shop with a 1.3 MOD 6 years ago has seen it drop to 0.745, which is the third-



best out of 228 companies in Pennsylvania within its class code. Before implementing changes to improve their MOD, they were unable to receive a multi-million dollar contract, even as low bidder, as the purchasing company's risk manager viewed them as an unsafe company and therefore questioned the quality of their work. They now have been able to win that contract and have grown from 58 to 110 employees due to winning the contract.

- An asbestos abatement and insulation contractor had a 1.02 MOD, which, as you can see, is barely above 1.00. Despite being low bidder, they were unable to receive 11 jobs in a 3-year period as they were disqualified due to being "unsafe." The contractor could not qualify for private work due to their MOD being over 1.00, and therefore had to try and compete in the very low profit margin, highly competitive government arena. Working with the owner to implement a zero-accident safety culture and adding processes to address their lost time injuries, the contractor had one of the best modifiers in the state within 3 years. Recently, they even were asked to take over a job from a contractor who was removed due to that contractor's MOD going over 1.00. The company went from barely surviving to thriving.

- A 55-employee cable and fiber optic line installer with a 1.65 MOD was informed by a telecommunications company that they had 2

years to attain compliance with their safety guidelines, which included a requirement of being below 1.00. The concern was that this telecommunications company represented 90 percent of their work. Losing the contract most likely meant being put out of business, as they did not qualify for other companies' line work due to their MOD. The contractor was given an extension to 4 years, but they had to hit benchmarks in terms of number of injuries that would be verified through loss runs from their insurance company and their OSHA logs. Second, they initiated an aggressive behavior-based safety program as their frequency had to be cut by 60 percent to be in compliance in the first year, and 80 percent in 2 years. Based on their results, they were compliant and actually went 19 months without an injury. They will be in compliance of a MOD below 1.00 in 3 years as well. They are looking forward to bidding on work from other telecommunication companies now.

Each of these companies is far better positioned to compete in business by improving its workers' compensation performance.

WHAT'S HOLDING COMPANIES BACK?

With such striking results, what keeps companies from achieving such stellar performance? Our experience points to two primary factors. Often, there's a lack of owner support and commitment for improving the organization's operations. This includes difficulty in scheduling training sessions, meetings consistently being cancelled and an overall company culture that primarily is driven by the owner's unwillingness to change, productivity-only focus or stretched or scattered resources due to too many projects going on at once. Another factor is the insurance company's reluctance to support an appropriate claims management process. Claims adjusters often feel threatened by a consultant's claims management staff and avoid communicating with them. Unfortunately, any insurance companies can have "unseasoned" adjusters, ones that don't fully understand the work-

ers' compensation laws and really don't have any skin in the game.

But it doesn't need to be this way. Things can go right under the right conditions:

- Obtaining the full support of owner and executive management staff to implement cultural changes within an organization.
- Giving appropriate consultants the time necessary to conduct specific training programs with frontline supervisors and implement necessary policies and procedures.
- Conducting a comprehensive loss trending analysis to identify those losses that are driving the companies claim frequency and severity. Then, with an evaluation of the findings, develop and implement processes to change the negative culture that is driving both claims frequency and severity.

Management commitment is the most important factor in changing the attitude of the work force. Next is installing the necessary elements to achieve the desired results. Usually, business owners fail to recognize the impact accident costs have on the business. This is why they need to see the data to understand that injury prevention and injury management are 100 percent controllable expenses. Since these are employee costs, it starts at hiring, training, monitoring employees for continuous improvement: Plan, do, check, act.

Since companies differ, it's critical to gain an understanding of how to formulate a plan that produces the desired results. All companies are different, both culturally and functionally. Identifying these differences in the early stages of engagement is important in order to formulate an effective plan to achieve the desired results. This includes developing standardized operating procedures and conducting training in hiring, accident investigation, workplace inspections, audits, etc.

HAPPY AND PRODUCTIVE

All of this is anything but an academic exercise. It's the process for creating a happy, productive and injury-free work force, along with a business that



is successful because it has a competitive advantage that makes it attractive to customers.

And behind it all is the experience modification factor which, rather than OSHA Recordable and DART (Days Away, Restricted Time) rates, is used by risk managers as a benchmark. Unlike the OSHA log, third parties that are viewed as reliable sources – such as the state workers' compensation rating bureau and insurance companies – create and provide the data that promulgates the MOD.

Unfortunately, however, the MOD is subject to the severity of claims or even a single large claim, where frequency (the number of injuries adjusted for individual size for comparison) may be a better indicator of safety performance. However, many risk managers view these records as unreliable, feeling that they can be altered by a company that is not reporting all incidents. As a result, the modifier is viewed as a reliable basis for review.

The bottom line is clear: making a diligent effort to get a company's experience modification factor to the lowest allowable level may determine whether a company in this economy gets a job or not.

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