



## Corporate Exposure: Management Involvement

Harry P. Mirijanian

As a frequent speaker at a number of risk-management related programs, I have a wonderful opportunity to speak directly with the individuals in organizations assigned the dubious responsibility of controlling insurance costs. In particular, I mean those who control workers compensation costs, where rates are growing at double digits and whose overall cost to the business community is approaching \$100 billion a year. The solution to implementing cost reduction is often simple: Eliminate employee accidents (pre-loss) and manage resulting loss claim expenses (post-loss). Though simple in structure, implementation of these solutions presents the greatest obstacle to their effectiveness. To narrow the point, management's failure to get involved is probably the single largest contributing factor to the organization's frustration and failure to control workers compensation costs.

### Taking the First Step

How do you get management involved? This is one of the most common questions we hear. Obviously, the answer will differ from organization to organization. Some organizations get involved because they fear adverse publicity or the negative image a high accident rate carries. Others only respond when their ability to compete effectively in the market is challenged. (An example: Some construction firms are prohibited by project owners from bidding on certain jobs if their workers compensation experience is poor or above a specified ratio.) Still others only respond when costs have risen substantially. We recently suggested to one client it did not appear its \$7 million in annual workers compensation losses is significant enough for the company to accept the necessary involvement to reverse this trend. Unfor-

tunately, the client misinterpreted our comments and thought we meant the company did not care about the safety of its employees. In fact, what we meant was that, at least in this client's situation, dollar losses had not reached a high enough level for management to get involved in reducing losses. In any case, the one common theme to getting management involved is the almighty dollar. In view of this, we suggest two simple, effective strategies.

### Figure Expenses Accurately

First, when examining workers compensation costs, be certain to factor in

Failure to get  
involved means  
higher costs.

those expenses not covered by insurance. Insurance company loss runs only report the cost of the individual's medical treatment, reimbursable wages, and associated costs necessary to handle a claim. Not included in those figures are costs resulting from nonproductive time, shipment delays, overtime requirements, and so forth. Though there is some variation from company to company, a generally accepted multiple factor is four. Thus, if you have a workers compensation accident that costs \$500 in medical bills and \$1000 in lost wages, we submit that the actual cost to the company is \$6000—\$4500 of which is not covered by insurance. For some companies the factor can be significantly higher.

Be certain to reflect the true costs of accidents to management, not just what is reported by the insurance

company.

### Show Where It Costs

Second, we strongly advocate allocating costs back to divisions (and even departments) if possible. Developing accident costs per work hour, widget produced, etc., seems to be extremely effective in gaining management's involvement. Once management recognizes that costs are applied against its budget/profitability factors, the response is swift. In addition, having losses affect such factors as performance reviews and bonuses further illustrates the need for management to respond both at the pre- and post-loss stages.

In summary, be creative in finding ways to gain management's involvement. We have seen results simply by reflecting true accident costs and allocating these back, but perhaps something else will serve as the trigger in your organization. Conversely, realize that some in management will not respond until too late, no matter how serious your warnings. But with workers compensation rates increasing at unprecedented levels, not to mention medical cost inflation, those in management who have stuck their heads in the sand awaiting calmer times will merely get steamrolled by the workers compensation crisis affecting America.

AMA offers a course addressing workers compensation and risk management issues. For more information, contact Barbara Dortsch at 212-903-8202.

*Harry P. Mirijanian is president of Applied Risk, an independent risk management services firm established to assist the business community in reducing exposure to loss and insurance costs. He is a frequent speaker at AMA seminars.*

