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A well-known secret: The "reverse business case" threatens worker health and safety


Posted by garrettbrown on May 11, 2017

Accounting professors have confirmed what we always suspected: companies which are scrambling to meet or just beat Wall Street analysts' profit projections have worker injury rates that are 12% higher than other employers. The recent research indicates that frantic efforts by "benchmark-beating" employers – increasing employees' workloads or pressuring them to work faster, at the same time that these employers cut safety spending on activities like maintaining equipment or training employees, to meet the profit projections – are the likely source of increased injuries and illnesses.

Professors Judson Caskey of the UCLA Anderson School of Management and Naim Bugra Ozel from the UT Dallas Jindal School of Management used workplace-level data from the federal Occupational Safety and Health Administration to compare injury rates for two general categories of firms. Companies that barely met or slightly exceeded analysts' financial benchmarks had higher work-related injury and illness rates than those firms that comfortably beat or completely missed financial analysts' profit forecasts. Their paper, "Earnings expectations and employee safety," was published earlier this year in the *Journal of Accounting and Economics*.

Caskey and Ozel's findings are the flip side of the often-cited but less frequently followed "business case for safety" which has shown for two decades now that employer spending on health and safety programs generates two to three times the return on the investment. Effective safety programs reduce the number of injuries, illnesses and fatalities; they reduce all the associated costs, including medical expenses, workers' compensation and regulatory fines; they increase productivity, and thereby increase profits and stock price; they result in higher employee morale, higher retention rates, lower absenteeism and reduced turn-over and training costs; and they help safer companies attract new talent and improve their corporate reputation.

Among those banging the drum for the business case are Federal OSHA, the European Agency for Safety and Health (EU-OSHA), the U.S. Chemical Safety Board (CSB), the Center for Safety & Health Sustainability (CSHS), and even Queen Elizabeth's Royal Society for the Prevention of Accidents.

We now have Caskey and Ozel's analysis to show that employers that ignore the safety business case, not surprisingly, have higher rates of injury and illness among their workers.

The accounting and business school professors looked at the safety records and financial performance of 35,350 "establishment-years" from 868 unique companies in the period of 2002 to 2011. They classified the companies into several categories related to financial analysts' profit projections: the "meet/just beat" category; the "comfortably beat" category; and the "large miss" and "small miss" categories. The researchers used each firm's total injury case rate as the variable for safety performance and the companies' earnings as an indicator of financial performance.

On average, the "meet/just beat," or "suspect," firms had injury rates that were 5% to 15% higher (with an overall average of 12%) than the other firms. Another way to express the results is that one in 24 employees is injured in the "meet/just beat" firms compared to one in 27 employees in the other firms. The results were "both statistically and economically significant after controlling for various establishment-level and firm-level characteristics."

Dr. Ozel commented that

> "we know that firms try to meet earnings benchmarks because the benchmarks have implications for the firms. If firms do not meet these benchmarks, then investors punish them, and stock prices go down significantly after a miss of earnings expectations. That gives managers incentive to use the tools they have to ensure they are going to perform at least to expectations."

He also noted that CEOs' "career outcomes" can be affected by missed benchmarks, and their pay is increasingly in the form of stocks, whose value decline with missed profit projections.

The authors describe the "tools" that managers use in their scramble to meet analysts' benchmarks:

> "increasing workloads, hours, or the desired speed of work flow. For example, rushed employees may have more accidents, and increased workload and hours without additional rest and recovery time can increase stress-related injuries. Managers can also directly impact safety by cutting safety-related expenditures," including equipment maintenance, personal protective equipment and safety training.

In the shorthand of standard employer excuses: "The Market made me do it…"

Interestingly, the accounting and business school professors' research found that there are three settings where this effect is much less evident:

- **Unionized workplaces** – "The establishment-level analysis indicates that injury rates are lower by about 6.4% in suspect firm-years when there is more union presence. These results support the conjecture that the association between workplace safety and benchmark-beating diminishes with union membership. Overall, the results suggest that unions limit managers' ability to shirk on workplace safety in their attempts to meet or beat expectations."

- **States with stronger worker compensation systems** – The analysis indicates that "suspect firm-years in high premium states have 4.8% lower injury rates than those in lower premium states." The difference in state workers comp systems is a factor in "managers' willingness to increase workloads and demands on employees in their attempts to meet or beat expectations will be weaker when workplace injuries have a larger effect on the worker compensation premium costs."

- **Government contracting** – Some government agencies have policies that companies that do not meet workplace safety criteria can be disqualified from bidding on government contracts. The research analysis "suggests that suspect firms with more government business have fewer injuries compared to suspect firms with little or no government business. These findings are consistent with the disciplining role of the risk of losing government contracts…managers are more reluctant to compromise employee safety in their attempts to meet or beat expectations when they have additional incentives for keeping their workplace safe."

Dr. Ozel noted that most people think company managers "are rational players, so while performance is important, they will not sacrifice people's health for this purpose." But he said their study shows that this is not just a problem of random anecdotes of a few companies "willing to sacrifice employees' safety." Rather "we looked at a large sample, and in this sample, we find quite a significant result – a 10 to 15 percent increase in employee injuries."

I see several important take-away messages from this research:

- The "business case for safety" is true and protects worker health and safety;
- The "reverse business case" is also true and threatens worker health and safety;
- The relentless drive to meet or beat quarterly profit projections on Wall Street is a serious hazard to worker health and safety;
- The presence and activity of a union protects worker health and safety;
- Strong worker compensation systems on a state level protect worker health and safety; and

- Government contracting which includes meaningful selection criteria of a company's safety performance protects worker health and safety.

These may not be new or surprising conclusions to you – but now you have additional confirmation of them by business school bean-counters to back you up.

Garrett Brown is a certified industrial hygienist who worked for Cal/OSHA for 20 years as a field Compliance Safety and Health Officer and then served as Special Assistant to the Chief of the Division before retiring in 2014. He has also been the volunteer Coordinator of the Maquiladora Health & Safety Support Network since 1993 and has coordinated projects in Bangladesh, Central America, China, Dominican Republic, Indonesia, Mexico and Vietnam.

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Keywords: business case for safety, Judson Caskey, Naim Bugra Ozel

Comments

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   Australia
   May 12, 2017

   I once worked for a company whos policy
   was " Saftey before cost and schedule ".
   It wast just empty words. Everyone at all levels did everything
   by this idea. If a task couldnt be done safely, the company was
   utterly happy to pay people to sit for hours until it could be done correctly. It was an amazing, safe workplace, despite
   many tasks being in the high risk catagory.
   Moral was high. Profits were high. Project was
   completed before the due date.
   It was far and away the best model ive encountered.