



# 29<sup>th</sup> Annual YPSW Section Conference

Critical EHS Measures-  
Relating to the Corner Office  
Or  
Speaking in the  
Language of the Customer

\*\*\*\*\*

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## YPSW/AIHA SECTION 21st ANNUAL CONFERENCE

Communicating with Senior  
Management:  
Marketing, Advertising, and Sales

\*\*\*\*\*

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ypsw1

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## SUSTAINABILITY

Jim Rock: Sustainability **IN**  
Industrial Hygiene

Rick Fulwiler: Sustainability **OF**  
Industrial Hygiene

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## OBJECTIVE TODAY

- Create dissatisfaction
- Start a paradigm shift
- Focus on a specific *customer*
- Describe 5 approaches to speak in *their* language
- Do you have a role?

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Opportunity  
is nowhere

Opportunity  
is no where

Opportunity  
is now here

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## THE OPPORTUNITY

1992:      \$145 Billion      Injuries  
                 \$26 Billion      Illnesses

TOTAL      *\$171 Billion*

at 7% profit margin additional sales required

***\$2.44 Trillion*** or  
\$2,440,000,000,000.00

Source: Archives of Intern. Med., 7/1997.

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## FORTUNE MAGAZINE

*"Managing safety is no easy task, but it makes bottom-line sense. There's a direct payoff in savings on a company's workers compensation insurance, whose premiums are based on the number of claims paid for job injuries. The indirect benefits are far larger, for safe plants tend to be well run in general and more productive."*

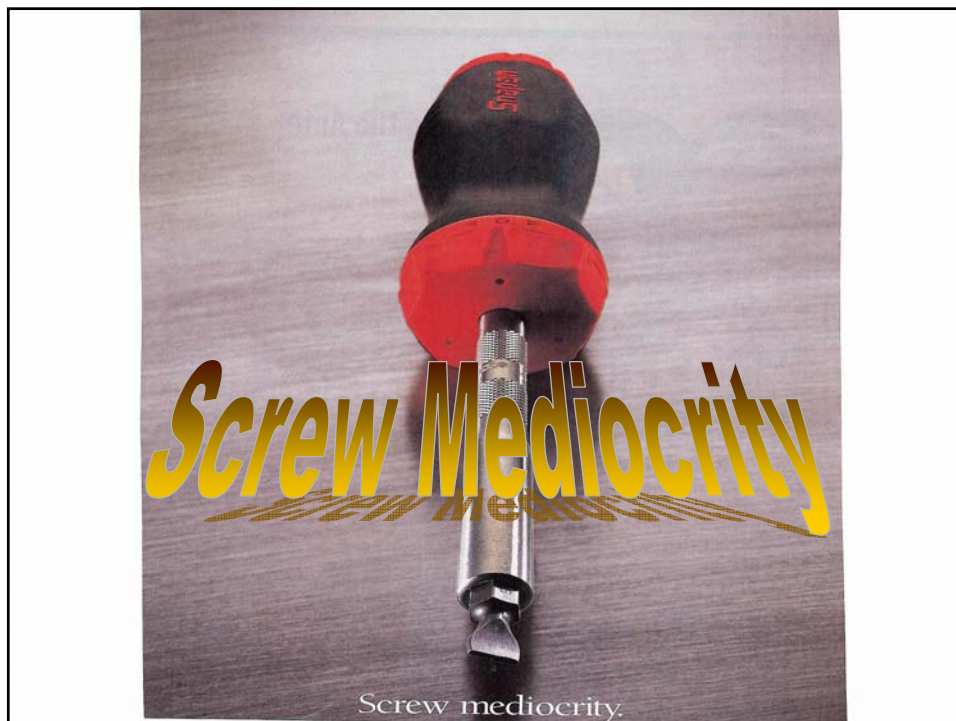
The Battle for Industrial Safety by Mary Connors, 8  
8/4/97

## What's Driving H&S Today?

- OSHA and Regulations?
- Organized labor or the workers?
- Workers Compensation (WC) costs?
- Traditional values?
- ?
- ?

Looks like we are striving for mediocrity.

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## Who are the EHS Customers?

- The community
- The public
- The workers
- The CEO, BOD, SLM\*\*\*

\*\*\*SLM = Senior Line Management  
or "The Corner Office"

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## So Our Customer Today is...

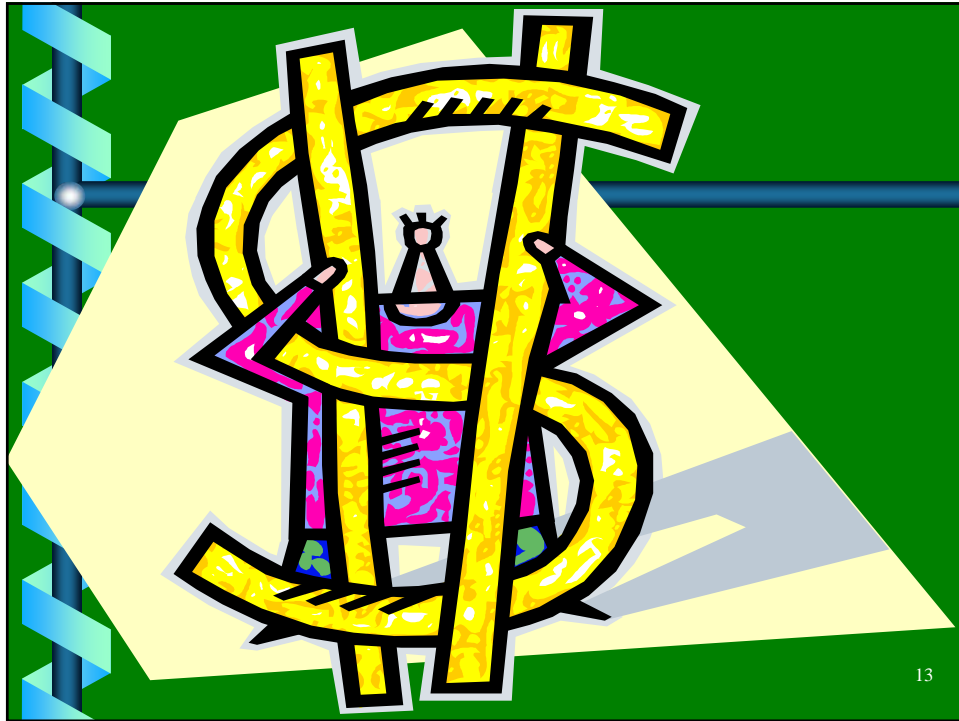
- ...the guys and gals in the "Corner Office"

Or

Senior Line Management

...and what are they focused on?

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## Time for Some Perspectives

- The Human Case
- The Business Case
- 
- Business = Enterprise
- Profit = Budget
- Metrics = Outputs

## Five Approaches

1. Sales Equivalent Dollars (SE\$)  
(Non profits hang in there)
2. Expressing H&S outputs as Business outputs
3. The cost of being average
4. H&S as a technology enabler
5. Aligning H&S with critical outputs of the enterprise

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## APPROACH NO. 1

Express H&S losses / savings as  
SALES EQUIVALENT \$\$\$\$

Sales Equiv. \$ =

$$\frac{\text{\$losses/saved} \times 100\%}{\text{profit margin as \%}}$$

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## EXAMPLE - APPROACH NO. 1

- A \$12,000 injury
- Assume 7% profit margin

$$SE\$ = \frac{\$12,000 \times 100\%}{7\%}$$

$$SE\$ = \$1,200,000 / 7 = \$171,428$$

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30 — (ISH) MAY 2002

Want to grab a  
**MANAGER'S ATTENTION?**

*Use this safety-related financial formula*  
By DR. RICHARD D. FULLWILER, CIH, CSHM



It's extremely important that health and safety professionals express injuries, illnesses, workers' compensation costs and other performance measures in terms of clearly understood business outputs if our function is to be truly valued and sustainable. For instance, when I was asked to make the annual health and safety presentation to the senior management of my company a decade ago, I had two specific objectives:

First, I wanted managers to understand that not only is there a human case for health and safety, but there is also a very strong business case.

Second, since we were experiencing excellent results in health and safety, well better than average, I wanted them to know just what the cost of being average would be.

Key to this presentation was the need to speak the language of senior management, not health and safety jargon. There was no reference to things like TIR, LWDC rates and the like — just dollars, profit margins and sales. Like it or not, this is the language of senior management and we need to speak in that language.

I explained that in the previous year our workers' comp costs were \$11 million. Now, was the senior management of a \$25-billion company really interested in hearing some staff guy talk about \$11 million?

Not at all.

I proceeded to mention that through benchmarking we knew we were four to eight times better than our competition. Now they started to listen. "Competition" is a term near and dear to them.

I went on to state that if our workers' comp costs were average — that is six times greater — they would total \$66 million. That still didn't get their collective attention.

I then mentioned our profit margin was 5.6 percent, to which they nodded agreement. Next I said, "Do you realize that if we were average we would have to generate an additional \$1.2 billion in sales to make up just for the workers' comp costs? At that point I knew I had their collective attention, and a few questioned how I arrived at this number.

Senior managers can clearly relate to this metric I first used in 1992 called *Sales Equivalent Dollars*. Throughout this article I'll refer to it as "SES." The formula is simple, straightforward and defensible. You want no smoke and mirrors when communicating with senior management.

ASCE 1

## "Profits" - Not for Profit Institution

Cincinnati - Suspected a significant financial drain, commissioned an initiative

- *Success/Measurement Criteria*
  - Saving \$ by reducing WC costs
  - Avoiding lost wages due to inj/ill
  - Tracking the human losses
- *Results*
  - \$45,000,000 reduction in WC costs
  - \$1,100,000 savings in lost wages
  - LWDC rate from 10 to 2, 8 less of every 100 employees injured

Nonprofit1.pt.ppt 19

## APPROACH NO. 2

Express H&S outputs as business outputs. Learn what the important business outputs are.

- *Cost*
- *Production*
- *Quality*
- *Payroll costs*
- *Customer satisfaction*
- *Technology enabling*

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## EXAMPLE - APPROACH NO. 2

Mattson Lumber Co., Rhonda Wilson

- Reduced Experience Mode Factor
- \$300,000 savings
- At 7% profit margin = \$4,285,700
- Express this in  
*cents per board foot*

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## A \$500 INJURY COSTS...

- A soft drink bottler to sell over 61,000 cans
- A food packer to sell over 235,000 cans of corn
- A bakery to sell 235,000 donuts
- A paving contractor to lay 900 feet of two-lane asphalt
- A ready-mix Co. to deliver 20 truckloads of concrete

Source: OSHA 22

## APPROACH NO. 3

### The cost of being average.

- Total Incidence Rate - TIR
- Lost workday case rate - LWDCR
- Experience Mod. Factor - EMF
- Workers Comp Costs - \$/\$100 payroll

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## A Competitive Advantage or Disadvantage???

What average is (manufacturing):

- OSHA TRI R----- 8.1
- OSHA LWDC R----- 4.1
- WC EMF----- 1.0

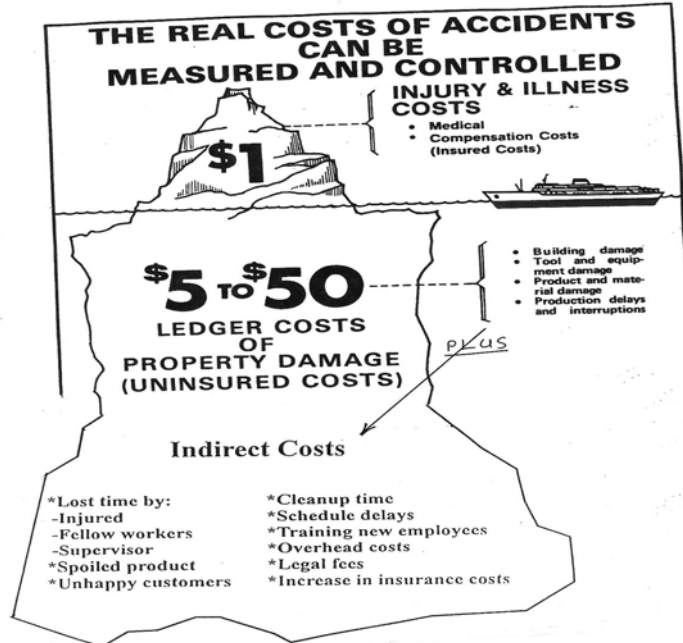
**Being better than average provides a competitive advantage.**

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## EXAMPLE - APPROACH NO. 3

- 1992, 11<sup>th</sup> floor Procter & Gamble
- \$11 million
- 4 - 8X
- 6X
- \$66 million
- 5.6%
- **\$1.1 BILLION** in sales

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## DIRECT & INDIRECT COSTS

Direct: Medical and indemnity costs

Indirect:

- Wages of injured & others
- Property & product damages
- Administrative costs

**2X**: Archives of Intern. Med.,  
July, 1997

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## THE TOTAL COST

Direct cost----- \$1.1 B

Indirect cost @ 2X---- \$2.2 B

**Total cost----- \$3.3 B**

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## Workers Compensation (WC)

- An increasing or decreasing cost?
- Increasing at 13.5% per year
- Health Care = 52% WC costs
- Increasing at 14.7% per year
- The Average WC cost:

**\$12,055**

Source: National safety Council

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## EXPERIENCE MODIFICATION FACTOR (EMF)

- Purpose: Determine cost basis for WC
- TAL = total actual losses incl. reserves
- TEL = total expected losses " "
- AF = adjustment factors
- EMF = small is good, big is bad

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## Formulae for:

## EMF & SE\$

$$EMF = \frac{\text{Total Actual Losses} \times AF}{\text{Total Estimated Losses}}$$

$$SE\$ = \frac{\text{losses/savings in \$} \times 100\%}{\text{profit margin in \%}}$$

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## EXPERIENCE MODIFICATION FACTOR (EMF)

<u>Co.</u>	<u>Manual Premium</u>	<u>EMF</u>	<u>Actual Premium</u>
A	\$500,000	.50	\$250,000
B	\$500,000	1.0	\$500,000
C	\$500,000	1.5	\$750,000

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## WORKERS COMPENSATION \$/\$100 Payroll

<u>Industry</u>	<u>\$/\$100</u>
Tree pruner	43.60
Oil/gas drilling	23.84
Auto manufacturing	5.40
Soap & detergent man	3.78
P&G	0.56
Traveling salespeople	0.62

Source: National Council of Comp. Insurance

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## APPROACH NO. 4

### H&S is a Technology Enabler

Without H&S, hazardous business building technologies could not exist.

- Hazardous processes
- Hazardous chemicals
- Key ingredients

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## No. 4: Technology Enabling

- Pharmaceutical
- Foundry
- Construction
- Automobiles
- Farming
- Heavy equipment

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## EXAMPLE - APPROACH NO. 4

### Caterpillar Tractor

- Artic and the Equator
- Sophisticated paint and welding systems
- Hazardous chemicals and processes
- H&S - a technology enabler

**Needs to be marketed, advertised and sold**

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## EXAMPLE - APPROACH NO. 4

- 1968, jolly ole England
- Detergents: Unilever = No. 1, P&G = No. 2
- New technology = enzymes
- Occupational asthma
- Labor unions: "No more enzymes"
- P&G: Enzyme hygiene capability system
- P&G = Yes, Unilever = No
- 1969: P&G = No. 1, Unilever = No. 2

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## APPROACH NO. 5

Align/link H&S with the critical outputs of the enterprise

- What are the strategic business objectives?
- What is really important?
- How does H&S add value?
- Consider approaches 1 - 4

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## No. 5: Aligning/linking H&S with critical outputs

### REQUIRES:

1. Getting clear on critical outputs of your enterprise
2. Identifying the critical work for H&S
3. Creating linkages or alignment
4. Communicating those linkages
5. Executing against the linkages

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## SAFETY EXAMPLE - APPROACH NO. 5

Corp.: Reduce price gap between P&G and store brands (1991)

Manuf.: Keep case costs flat - 4 yrs.

Safety: Keep WC costs flat - 4 yrs.

<u>Yr.</u>	<u>91</u>	<u>92</u>	<u>93</u>	<u>94</u>	<u>95</u>
WC\$/ \$100	.56	.54	.54	.44	.44
Accum. \$MM	3.3	8.2	14.7	23.6	31.6

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# IH EXAMPLE - APPROACH NO. 5

Corp.: Get product improvements to the market fast.

Soap & Det. Div.: Speedy deployment of improved enzyme technology

IH: Global enzyme hygiene capability

Yr.	92	93	94
% Cap.	62%	84%	97%
No. Cap.	20/32	27/32	31/32

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## Speaking Out

by Richard D. Fuhler, Sc.D., CHA, CSHM

### Building the Business Case for Health and Safety



*Health and safety reaps huge benefits when it is seen as providing a competitive advantage. Here's how to make the case.*

**S**afety pays! If this is true, how come so many senior line managers view occupational health and safety as a staff cost necessity as opposed to a business-building asset? The answer is that health and safety professionals have done a lousy job of building the business case for health and safety. At the risk of drawing the ire of my colleagues, I see few solid examples of health and safety as a business-building asset.

**Safety pays!** If this is true, how come so many health and safety staffs are being reduced, eliminated (outsourced) or, at least, are not growing commensurate with the enterprise they support. The answer is that health and safety professionals have done a lousy job of convincing their management that they provide a strategic value to the enterprise.

**Safety pays!** If this is true, how come it is viewed on the expense side of the ledger as opposed to the revenue side? The answer is that health and safety professionals have done a lousy job of expressing health and safety outputs as business outputs.

**Safety pays!** Well, if it does, we health and safety professionals had better get with it and build a solid business case for health and safety. I hope this article will stir up some interest and offer some insight into doing just that.

Before proceeding, let me

be perfectly clear that the human case for health and safety takes precedence over the business case. In no way am I suggesting that the bottom line is more important than the health and well-being of workers, who are our No. 1 customers. As you will note in the simple model — "People, Public Trust and Profit ..." — I put forth in the April 1998 issue of *Occupational Hazards*, the model starts with people, then public trust and, only then, profit. People, those inside and outside of the fence line, come first. Public trust, the

reputation of our enterprise, its facilities, brands and products, is next. Without trust, there can be no beneficial relationships with our employees, customers or community. Finally, there is profit, without which there can be no business.

After you have used the short survey below, think of the implications for health and safety if line management rates it on the high side of 15. You'll agree that is a much prettier picture than if they see it on the low side. On the high side, I would expect you would find senior line management involved and actually setting health and safety expectations, communicating them to the organization, visibly supporting them and holding the organization accountable for health and safety results. On the low side, I would expect the

#### A SHORT SURVEY

Just so the blinders are off, why don't you ask three to five line managers in your organization to complete this short survey — that is, if you have the courage.

How do you (line managers) view occupational health and safety? (Circle the appropriate number with 1 being "strongly disagree" and 5 being "strongly agree.")

1. As a source of revenue or as an expense?	1	2	3	4	5	Strongly agree
2. As a business-building asset?	1	2	3	4	5	Strongly agree
3. As a competitive advantage?	1	2	3	4	5	Strongly agree
4. As a strategic function?	1	2	3	4	5	Strongly agree
5. As an important enabling element in our core business?	1	2	3	4	5	Strongly agree

A score of 20-25: Congratulations! The business case has been built.

A score of 15-19: There is a good foundation in place. Now, finish the building.

A score of 10-14: Better get started because H&S is not on a stable foundation.

A score of 6-9: Better update your resume.

A score of 5: Send out your resume.

SP 14-16



## LET'S RECAP

- Start a paradigm shift
- Focus on a specific *customer*
- Describe 5 approaches to speak in *their* language
- Put the Human Case and Business Case in perspective
- Do you have a role?

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