EXECUTIVE SOURCING GUIDE FOR THE COMPANIES THAT BUILD NORTH AMERICA

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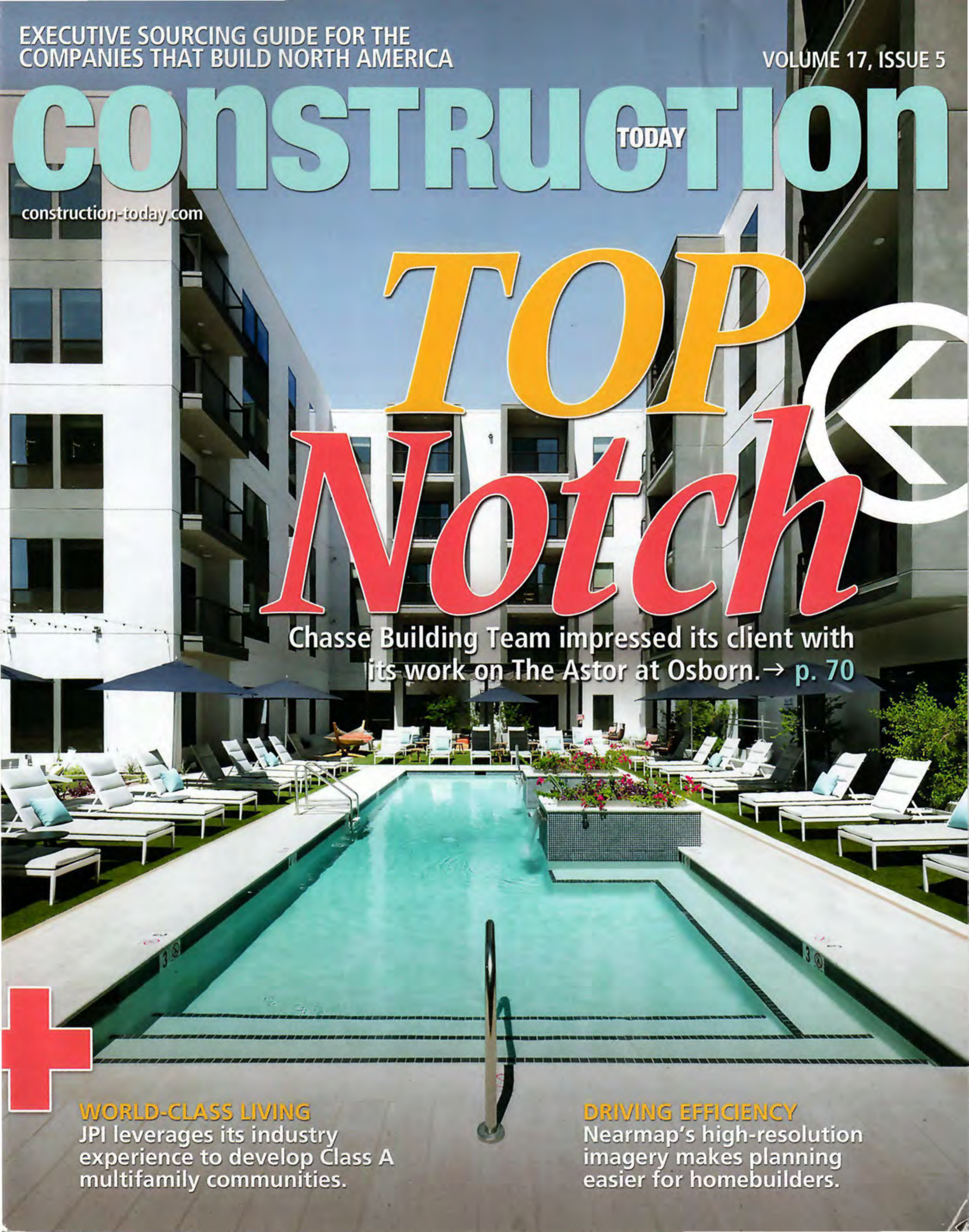

TOP Notch

Chasse Building Team impressed its client with its work on The Astor at Osborn. → p. 70

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JPI leverages its industry experience to develop Class A multifamily communities.

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Nearmap's high-resolution imagery makes planning easier for homebuilders.

SAFETY

CULTURE ISSUES

Having a good culture is more than being OSHA or HR compliant. BY DAVID R. LENG

It is important if you're doing a good, bad or fair job when it comes to company culture.

"If you cannot measure it, you cannot improve it." - Sir William Thomson (Lord Kelvin).

Businesses always strive to improve, but unless you know what the problem is, you can't truly fix it, and if you don't truly fix it your improvement is nothing more than blind surgery. Let's take for example your experience modifier, which is one of the biggest drivers of an employer's workers' compensation premium. The lower your experience modifier is the lower your premium will be.

Your experience modifier is based on your data, total claim dollars and audited payroll amounts over a three-year period. Unfortunately, most insurance agents will come to you and say, "You have a 0.94 experience modifier. That is great. You are getting a credit of 6 percent for a great loss history." In other words, your company is making money. Therefore, you must be stressing to your employees to be job safety conscious. But that's not automatically the case.

Many times, a business owner believes because that since the company is making money, it has a good culture, so all is well. However, when they do a deep dive into the all-important data points, they can see that there are issues within the company that are holding them back from real growth, productivity, accountability and profitability – from making real money.

I once visited a manufacturing organization as part of a due diligence, Risk Management HR assessment before my client acquired the company. There were only three people in the organization that knew what my true intent was, everyone else thought I was just doing a safety inspection. After meeting with the financial and HR directors, going through quite a number of questions, I went on a tour of the facility. When engaging with some of the employees as to what they did and how they did it, they seemed unengaged, just trying to get through the day. Others were trying to get as many parts out as they possibly could because they were paid based on the number of parts more so than their hourly rate.

The most bizarre part of all this was the behavior of the president of the organization. When I arrived, the president came out of the office, greeted me at a distance from the door, but did not come over to shake my hand. She simply stuck her head out the door of the office and said that she had a meeting with several of the other managers and that she would try to catch up with me later. I was there for three and a half hours and never once actually shook hands with the president nor had a conversation. The president came out of the meeting about an hour and a half later, went straight to lunch, and then proceeded to be on the computer and phone the rest of my time there.

Looking at some of the data that I was gathering from the company such as injury frequency rates, turnover rates, absenteeism (and presenteeism), quality control failure rates, equipment damage from operators, and the like, it became quite clear to me that there was a culture issue. When I then met with the future owners, I explained to them that I felt there was a culture issue and I would not be surprised if sales were falling. The owners confirmed this and said that's why this foreign company is looking to sell this location.

After discussing the productivity issues, employee engagement, performance issues and based on employee injury costs analysis, I also estimated that their insurance premiums would come in higher then what was in the proforma the president provided them. My clients turned around and offered over $1 million less for the company and the foreign company still agreed to the new purchase price.

What this illustrates is that it's all about benchmarking and being aware of the lagging indicators that could be giving your company's success a "false read." And that's when it's very likely you are having issues culturally you might not be aware of.

I recently did some work with a woodworking shop. The growing company had seen an increase in the number and severity of injuries, including the loss of fingers due to improper use of a band saw which led to them receiving a huge OSHA fine. I walked through the workstations to observe how employees were performing their tasks.

When I came to the band saw that caused the employee to lose his fingers, I saw that the blade guides and blade guard were at the very top versus being 1/8-inch to 1/4-inch away from the workpiece. These two components work in conjunction to protect the woodworker as well as keep the saw blade from wobbling or twisting to a point where it likely would break or create bad cuts.

Each worker was following the same ill-fated pattern, even under the watchful eye of the supervisor. Everyone had an excuse, such as, "It takes too much time to readjust the guard for each change in

material." Everyone was focused on the time it takes to perform a single task, and did not take into account the one to two hours of downtime experience waiting for the maintenance person to replace a broken blade, nor the cost of the blades themselves or the future increased costs of workers' compensation premiums.

When I asked the supervisor how many broken blades they had to replace, he looked uncomfortable. He said four to five blades in the two months prior to the injury, and the new employee already broke two blades. What this told me is that speed was the factor, the ability to quickly turn around a product, and that the manager was willing to allow this at the expense of job safety. In interviews of the employees, it left them feeling that their value to the company was how many pieces that they could get done, and not feeling valuable enough that their own safety mattered to the company.

What this company was forgetting was that culture drives success. If the employees do not feel that management cares about them, then why should they care about the company? It is important to determine whether you are doing a good, fair or bad job when it comes to your company's culture. Are you improving or trending in the wrong direction? Having a good culture is more than being "OSHA or HR Compliant."

Starting at the top, an organization has to stress that they care about the employees, their safety and well-being. This feeling of being valued soon permeates the entire organization and transcends all levels of operation. It is not just lip service, but a deliberate conscious action to make sure that every action carried out by the organization is safety conscious. It is important that every employee understand how to do his job safely; not to rush, not to cut corners, because safety doesn't punch a clock. Ultimately, the most productive way of doing something is also the safest way to do something.

Many businesses think they have a good culture, often by trying to compare themselves to other companies. However, when it comes to trying to compare cultures, there are so many little nuances it makes it impossible to compare one company to another. A lot of employers look to benchmarking their own organizations, maybe through number of employees, percentage of growth, return on income, profitability, total revenue and other matters of financial matters. There are always internal items or points that you can benchmark that will determine whether you have a good culture or a poor culture.

And it might not be just one thing that brands you as being problematic. But when you start having issues with multiple points on this list, then you clearly have some cultural issues or, at the very least, things that you have to address. Most business leaders want to see their employees grow and flourish, to take care of their customers, to feel safe at work and so forth. But does that desire really transcend into your organization?

Ultimately, it comes down to determining if a business views accountability as just holding employees feet to the fire and disciplining mistakes, or if they view accountability as a two-way street in which management actually helps to make sure the employee has all the tools and trainings necessary to perform the employee's job most efficiently. Do they encourage, promote and get their employees fully engaged? Does management help to empower its employees to achieve better outcomes?

Here are some items every organization should benchmark:

- Number of injuries: The 5 percent Rule – If more than 5 percent of your employees are injured over a one- to three-year period, it is statistically too many injuries. Example, if your business has 20 employees, anything more than an injury a year is statistically high. In reality, you should strive for 0 percent.
- Wage to medical ratio: The 40 percent Rule – If you add up what you or the insurance company spends on wages (indemnity) as compared to total injury costs, and that percentage of wages is greater than 40 percent, this means that a lot of

employees are sitting at home, maybe taking advantage of the workers' compensation system, but clearly not feeling of value to the company. Their downtime is costing you money.

- Injury Rates: New Employee injuries/ Very Seasoned Employee injuries – Review your loss runs for the past five to 10 years. If a higher percentage of injuries come from employees in their first six months of employment than seasoned employees, you should look at your hiring and orientation programs. If you have a higher ratio of injuries with employees with you more than 10 or 20 years, then you may have employees that are going through the motions and are not fully engaged and focused.
- Work Comp Experience Modifier: The 0 Rule – You need to know how low your experience modifier can go (minimum modifier with 0 injuries). A 1.00 is just average, the closer you are to your minimum is important, but also a lagging longer-term benchmark as to performance of your employees. Also, if you do not know this, how can you benchmark how much extra money your claims are costing you?
- Turnover and Absenteeism– Not just overall turnover, but by location, department and by manager, as well as compared to employee performance reviews. If you have a department with high ratios, you may have a work environment (physical or emotional) issue. However, if you have better performing employees leaving, you really have a cultural issue. Remember, better employees tend to leave first as they have options and are in demand.

In reality, these can and should all be managed to Zero.

Each company has to develop specific benchmarks. If you are a manufacturer, you may want to look at quality failures, employee damage to equipment or parts in process, delays in production, etc. In transportation, you may want to look at accident investigations, Out of Service Vehicles and Driver Inspections (and what/why), telematics, and even fuel consumption per mile. Also, maintenance requirements per employee as bad drivers are harder on their vehicles.

It's extremely important to benchmark your activities and not just results, particularly as it pertains to the overall culture of the company. If you do not measure it, you cannot determine if you are doing a good job or a poor job. And without this determination, you will never be certain you are improving. ◆

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