

## **Success (and Failure) in the C-Suite**

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### **Abstract**

How can safety professionals navigate the boardroom to promote our key safety objectives? This position paper is based on the author's experiences, with case studies, to identify real-life conditions and strategies that resulted in executive support, as well as examples of failed attempts to gain the needed support to launch new initiatives.

Too often, safety professionals do not get the support (financial or otherwise) needed to promote the profession. My experience has been that there is limited business acumen when presenting our recommendations to non safety executives. The perception of safety as a back room resource and as an expense driver impedes growth and limits our opportunities to present our case at the executive level. The objective is to modify our approach so we can be viewed like other revenue-generating business units— sales, marketing, or operations.

Following is an overview of several critical elements that all safety professionals should be aware of to ensure our messages, and desired results, are realized. Besides the basics of the environment, we will cover several case studies that demonstrate the impact of preparation, analysis, and presentation skills and how it helps WIN or LOSE the deals.

### **Background**

To claim that safety should be valued by the organization the same as production and quality is great to say, but not always realistic in the current environment. Opportunities we have to improve operating efficiencies, eliminate risk, and reduce employee and public injuries are not always relatable to the bottom-line impact sought out by the C-Suite. Beyond regulatory compliance and what some view as the basic blocking and tackling of a safety professional, we need senior leadership to understand the social and financial benefits of our work. The onus is on us to change the conversation from incident rates to business impact.

From a consulting perspective, the vast majority of our projects need to have a financial element on how, specifically, the safety solutions being proposed will improve our client's total cost of risk (TCOR). Building blocks of TCOR include:

- Premium and frictional costs
- Claims administration
- Losses – from a safety viewpoint, direct costs associated with accidents

Organizations with loss-sensitive programs (retentions, high deductibles) will typically see the majority of their TCOR (upwards of 80% of their spending) associated with *Losses* component. This formula gives the safety professional an excellent platform to build strategies and adjust our requests so they are posed to the C-Suite as business decisions. The following sections set the stage for the various management positions we can come in contact with and how to deliver our messages effectively.

## Personalities

It is important to understand the various non-safety players and their motivations so we can position our “asks” for maximum probability of success. As we begin describing the techniques, the reaction from these non-safety executives typically is:

*The safety management profession is perceived as a necessary evil and corporate overhead*

*Many excellent safety management initiatives fail to secure management approval due to the linguistic disconnect between safety leaders and finance executives*

*Safety management leaders can have a greatly increased impact on their organization’s results by improving their command and usage of the language of the boardroom, which is the language of economic return*

It is important to understand the executives that may ultimately deliver the final denial to a request or the signed agreement to precede, what their roles are and their motivations.

**Chief Executive Officer (CEO)** is the highest-ranking administrator in charge of total management of an organization. Typically, the CEO has responsibilities as a communicator, decision maker, leader, and manager. As a leader, the CEO advises the board of directors, motivates employees, and drives change within the organization. Motivation is financial, public relations, and shareholder value.

**Chief Operating Officer (COO)** is responsible for the daily operation of the company and routinely reports to the CEO. The COO role is highly contingent and situational, as the role changes from company to company and even from CEO to successor CEO within the same company. Motivation is financial, understanding the competition and innovation/growth strategies.

**Chief Financial Officer (CFO)** is primarily responsible for managing the financial risks of the corporation. This officer is also responsible for financial planning and record-keeping, as well as financial reporting to higher management. Motivation is driving revenue by improving margin and profit and controlling costs.

**Risk Manager.** Every company needs to manage risk to keep the cost of insurance down. The person responsible for the assessment and handling of that risk is known as the risk manager. The risk manager needs to be able to handle all insurance and safety issues that may expose a company to litigation or insurance claims. Motivation is to ensure the organization is protected from all reasonable risks that can impact the operation.

**Human Resources Director** is responsible for the management of an organization's workforce. It is responsible for the attraction, selection, training, assessment, and rewarding of employees, while also overseeing organizational leadership and culture, and ensuring compliance with employment and labor laws. Motivation is employee health and wellness and hiring practices.

## C-Suite Drivers and Delivery of the Message

What drives leadership in the organization will almost certainly differ from our day to day safety activities. Source materials (Annual Report, 10K, Analysts' Reports, Competitors Strategies) are important to understand, so when positioning our requests, they align with the company's mission. There are key opportunities for safety leadership to align with corporate values, goals and statements.

**Return on Investment:** A solid safety tool in these situations is return on investment (ROI). ROI is a performance measure used to evaluate the efficiency of an investment. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment, the result is expressed as a percentage or a ratio.

$$\text{ROI} = \frac{\text{gain from investment} - \text{cost of investment}}{\text{cost of investment}}$$

Therefore, defining ROI in safety management terms is the financial value of the improvement or the costs saved from our solutions compared to the cost of the solution.

**Hurdle Rate:** In business, the minimum acceptable rate of return, or Hurdle Rate, is the minimum rate of return on a project a company is willing to accept before starting a project, given its risk and the opportunity cost of foregoing other projects. It is important that we understand the Hurdle Rate so we have a better chance of getting our projects approved by leadership. Let's assume that your organization has a Hurdle Rate of 12% (which is considered average), it is in our best interest when presenting projects that our estimated ROI is more than 12%.

Examples of statements from 10K and Annual Reports that can give us the "whys" to our "asks":

- "Attract and retain quality staff"
- "Develop our key asset – our people"
- "Be accountable for performance at brand level"
- "Maximize shareholder return"
- "Grow our market share by 10% over three years"
- "Focus on operational excellence"
- "Increase margin by 5%"
- "Clear the organization's target for ROI and Hurdle Rate"

Developing strategies and yearly initiatives is what safety professionals do. When the action items are so critical that they need approval and/or support from upper management it is important to know how to present and deliver the message. From upper management's perspective, the following questions need to be answered in order to win favor and have the best chance of acceptance:

*Does this initiative impact the balance sheet?*

- What is return on investment?
- What is the financial benefit/cost incurred in the payback period. Realize these costs should include labor, management time, employee time, materials, tool, capital expense, and external vendor/partner costs.

*Is it essential that we spend this money?*

- Can we get the same result with less expenditure?

- We can only spend our dollars once – does this initiative, and the way it is being presented, compel us to select this initiative over all other opportunities, i.e. increased spending in sales, marketing, and bonuses?

Delivering the message in non safety-related metrics is a valuable way to translate our typical lagging indicator discussions into decision points for management:

*Introduce the initiative*

“This supports 3 of our stated corporate goals”

“This will deliver a ROI of 15% over 3 years”

*Define the initiative*

“This will improve productivity by implementing a best –n-class solution to the elimination of ergonomic risks”

*Quantify the initiative*

“We require an investment in 2012 of \$x and a total three year investment of \$y, to drive a bottom line impact of \$z”

“The return will exceed our current Hurdle Rate”

## Case Studies

The best way to demonstrate the applicability of this information is to review how various safety initiatives were presented, the audiences, and the delivery that led to either a successful engagement or a lost opportunity:

- **Failure One – “Devil in the Details”** Safety professionals can be their own worst enemies when it comes to presenting data. Frequency rates are a common metric that can be telling from a trending perspective and allow us to align loss prevention strategies with types of injuries occurring. When it comes to the C-Suite, frequency rates only tell a portion of the story and do not easily translate to what the costs the organization will bear. Through my experience the cost, or severity side, of accidents are not well understood or presented strongly enough by safety professionals. Risk managers and others will act upon the cost related trends more decisively. We need to demonstrate what the ultimate cost is for each accident and what the savings will be based on our “asks.”
  - An organization was entering a difficult workers compensation (WC) insurance program renewal based on historical claims trends. The CFO reached out to the various departments he felt could present suggestions for both marketing purposes and real strategies to reverse the negative trend. When the safety manager presented, it was based on OSHA frequency and severity rates, trends that did not easily correlate with the negative financial impact of the WC claims. When asked what the cost savings would be if they reduced the OSHA rate by 10%, the safety manager was unsure how to articulate it. The risk manager was then asked to analyze the WC data to determine what cost savings the organization can reasonably expect based on claim reductions. Developed costs per claim type were determined, which allowed the organization to assign savings to accident-type specific strategies. The point is the safety manager had the opportunity to make the case and have ownership of a financially driven initiative. Instead, he was relegated to a tactical team member on a risk management initiative.
- **Success One – “Financial Objective”**

This opportunity arose when the risk management department and CFO were analyzing insurance allocations for the upcoming policy period and realized business units would be carrying an extra burden to offset the increased casualty-related premiums. They had 2 choices – adjust the allocation model and accept it is part of doing business or try to understand where the costs are coming from and do something about it. The safety department was asked to assess the situation and come up with a strategy. The initial analysis was going to be based on OSHA rates and accident frequency – 2 lagging indicators that were not going to present a clear cost savings opportunity and, ultimately, not answer the financially driven question. After a more detailed loss analysis, it was determined where the significant costs were occurring – business unit, sites, injury types – to determine a clear and time-sensitive scope of work to target these areas. A presentation was made to risk management and CFO on the recommended strategy, the costs, targeted reductions anticipated, and how the safety department would track results (with leading and lagging indicators). The conclusion was a well-funded safety project and an annual review of findings with the C-Suite to determine progress and other emerging risk areas that needed to be mitigated.

- **Failure Two – “Misaligned Strategies”** Without understanding the bigger organization’s strategy and growth plan, the safety professional may be measuring the wrong metrics or promoting improvement strategies that are not financially or operationally meaningful to their audience.
  - The organization was in a growth mode, both in US and internationally. The COO’s continued mantra was to drive best practices, standardization and to be a “world class” company. In his eyes, compliance was a minimum requirement. The safety department presented their strategy, but its primary focus was on local regulatory compliance and what the common incident rate metrics need to be developed to standardize reporting in the future. From a safety perspective, these initiatives are completely reasonable, but the opportunity to elevate the discussion was lost. In the view of the COO, the recommendations were too tactical and not a “long-term vision” for the organization. The decision was to hire an outside consulting firm to complete an operational assessment to identify gaps between current state and “world class” safety management systems. The safety department, in turn, lost some control of the next steps and ownership of the process.
- **Success Two – “Operational Improvements”**: Requesting budget for safety improvements can be a tricky proposition, especially in the current economic landscape. Most departments are operating with reduced budgets and heightened scrutiny on cost benefit and return on investment. The safety professional’s access to budget will depend on how ideas are presented on what business case can be made to the C-Suite. I always felt that under most circumstances, safety professionals need to prove a negative. If we conduct all this training, we will eliminate a percentage of employee injuries. We know it is true, but more difficult to prove. Financial analysis, with accurate data and business principles behind us, gives us a better chance for success:
  - A company was in need of new material handling equipment for their manufacturing facility. The local safety representative identified the need after employee interviews, review of prior accident investigation reports, and a more detailed ergonomics study of the operations. Based on the findings and clearly articulating the benefits up through the Finance group, unbudgeted funds were made available. Areas of improvement included:
    - Risk reduction score minimizing ergonomic concerns
    - Improved cycle time
    - More efficiencies
    - Anticipated injury-cost reduction of 15%

## **Conclusion**

- Understand the organization's goals
- Identify key financial metrics
- Align the initiative with stated goals and values
- Be realistic in your use of data and your projections of \$ results
- Commit to be personally responsible for measuring the \$ results
- Show how you will report back on the \$ results and ROI achieved
- Know your audience – speak 'business' not 'safety'