SAFETY PERFORMANCE AFFECTS CONTRACTORS' ABILITY TO OBTAIN A Bond

BY MICHAEL YOUNGBLUT

The safety function in a construction company touches nearly every segment of operations, including a contractor's ability to hire qualified workers. Employee safety, public safety and preservation of equipment and property are enormous responsibilities that extend well beyond the jobsite. Other than a lesson learned, nothing good comes from an accident. No matter who is involved or what the circumstances are, any accident is a setback for a project and a company.

No construction company is immune from discontinuance. Statistics show that construction business failures are spread fairly evenly among emerging firms, growth-mode companies—those that have been operating for 10 years—and well-established, multigenerational construction companies.

AN UNDERWRITING CONSIDERATION

Many factors threaten the success of a construction company, including material shortages, weather delays, labor/worker difficulties and economic downturn. However, safety performance is within a contractor's control. Accidents happen, but being proactive and having company leaders instill and demonstrate a corporate culture that places a priority on safety often minimizes the ill effects of the occasional mishap when a company is being reviewed for surety bonding. A strong safety program built on sound safety policies and practices can minimize damage or loss by allowing contractors to respond quickly and take appropriate action.

A contractor's safety performance is an underwriting consideration, and poor performance can show up in many areas of the underwriting process. Before a surety company will issue a bond, it must be satisfied the company is well managed and that all threats in the form of risk are being addressed, monitored and measured. The surety company has a keen interest in a contractor's ability to maintain a steady and productive workforce, operate a profitable enterprise, generate respect in the construction community and fulfill obligations as an employer.

The underwriting or prequalification process is fairly exhaustive. A firm's financial position is thoroughly examined, including the potential impact of pending claims. Its capacity is evaluated in terms of trained personnel, proper and safe equipment, and the experience to perform the type of work being considered. Finally, its reputation and relationships in the marketplace are appraised.

IMPACT ON FINANCIAL POSITION

Poor safety performance can affect a construction firm's financial position—in particular a company's net worth and liquidity, capacity to perform and reputation in the surrounding marketplace.

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>
> —EDWIN G. FOULKE JR., OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION (OSHA)

- Stressed systems—Rapid growth is rarely a planned event. When the construction economy heats up, the natural reaction is to optimize the situation and ride the wave until the market cools. During these periods of good economic opportunity, systems are stressed, including safety management. The need for an influx of workers to handle the growing backlog can cause shortcuts. Proper procedures are skirted, jeopardizing the project and everyone onsite.
- Inadequate training—Working outside the company's core competency by venturing into a different type of work or into an unknown geographic area could result in personnel not being adequately trained for the required tasks or unfamiliarity with the area roads and local weather conditions. Insufficient or improper worker training is a leading cause of personal injury and project delay, and could result in profit fade.
- Insufficient insurance—Safety is a cornerstone in any risk management function. It is not uncommon for a company to be underinsured. Suppose some workers fail to properly execute a safety policy to secure jobsite materials, resulting in the death of a third party walking by the jobsite. This failure could reach far beyond the contract's specified limits of insurance and appear on the contractor's financial statement (e.g., high legal/professional fees and penalties and fines).
- Reputation—A contractor wants to hire the best, most productive people pos-

sible for every "audience." One audience a contractor wants to impress is owners. Another audience is prospective employees. If the company has a bad reputation as an employer—one where jobsites are unkempt and jobsite accidents are reported in the local newspaper—it will have a more difficult time recruiting and retaining a top-notch workforce.

PRODUCTIVITY AND SAVINGS

"It is a proven fact that when employees operate under a comprehensive safety and health program, incidents of injury, illness and fatalities go down, insurance goes down and workers' compensation payments go down," says Assistant Secretary of Labor Edwin G. Foulke Jr. of the Occupational Safety and Health Administration (OSHA). "At the same time, employee morale goes up, productivity goes up, competitiveness goes up and profits go up."

Foulke continues, "It costs a company far less to institute preventative measures than to wait for the inevitable, expensive consequences of a workplace illness, accident or fatality. The savings and increased productivity that an employer realizes by investing in workplace safety can help a company survive."

Practical Tips

1] **Follow strict hiring protocols**—Benchmark the competition to stay one step ahead in hiring and retention practices as they relate to safety.

2] **Understand company finance**—Make sure management understands the basic concepts of construction company finance. Studies show that a common misunderstanding exists among key employees that companies make 30 percent net profit. Everyone needs to know how decisions and actions affect the bottom line.

3] **Beware of being under-insured**—General liability claims can be the most costly. Make sure insurance limits, including excess liability, match up adequately with exposure. Consider the trade off of higher retentions against the additional premium for higher limits.

COMMITMENT TO SAFETY

Higher than average insurance costs, profit fade from lackluster jobsite productivity, outstanding claims and disputes, above-average legal expenses, OSHA fines and related litigation, poorly maintained equipment and a below-average expense ratio for employee safety training are just a few of the red flags raised in the mind of a surety underwriter. They indicate a contractor's lack of commitment to safety excellence.

Poor safety performance can cripple a company's net worth and liquidity and damage a company's well-crafted reputation. It can impede a contractor's performance by limiting the company's ability to recruit and train a highly effective workforce.

Owners know there is a price for everything and must decide if it's worth paying for a firm with poor safety performance.

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