New Study Finds that Efforts to Meet Financial Benchmarks May Undermine Safety

If a company's management feels pressured to meet certain financial or earnings expectations, it may respond by manipulating real activities when the company's at risk of missing these benchmarks. Can such manipulation impact workplace safety'

Yes, says a new study, which found that compromises in workplace safety is a previously undocumented consequence of real activities management to meet earnings benchmarks. Specifically, the study, which will be published in the Feb. 2017 issue of the *Journal of Accounting and Economics*, found that benchmark beating is associated with higher workplace injuries and the strength of this association varies with employee workloads and discretionary expenses, including safety-related expenditures.

Researchers from the UCLA Anderson School of Management and UTD Jindal School of Management examined establishment-level (e.g., store or factory) injury data from the US Occupational Safety and Health Administration for 2002'2011. They found that about one in every 24 workers is injured in firms that meet or just beat analyst earnings forecasts, compared to about one in 27 in firms that miss or comfortably beat forecasts.

Even when controlling for a variety of characteristic and unobservable factors, the association between benchmark beating and injury rates remains statistically and economically significant. For example, controlling for other factors, injury rates are 5-15% higher in periods where a company meets or just beats analyst forecasts than in other periods.

The relationship between benchmark beating and workplace safety likely stems from two types of actions, say the researchers.

First, if managers believe the company may miss expectations in the ordinary course of business, they may increase workers' workloads or pressure them to work faster. In response, workers may compromise safety by overexerting themselves or circumventing safety procedures that slow the flow of work. (See, how putting productivity ahead of safety hurts the bottom line)

Second, managers may cut explicit and implicit safety costs, such as the costs of maintaining equipment and training workers, in their attempts to report higher earnings. (See, how to prove the ROI on safety training programs)

But the study also found three factors that mitigate or weaken the relationship between benchmark beating and workplace safety:

1. High union membership, which is consistent with unions' aim to ensure reasonable workloads, work speed and safety;
2. Workers' comp premiums that are based, in part, on the employer's workplace safety record and injury rates; and
3. Government contracts, which usually bar bids from companies with poor safety records. Thus, the connection between benchmark beating and workplace safety is weaker for firms that do more business with the government.