New Study Says Managers May Compromise Safety Due to Earnings Expectations

A new study found that managers of US companies facing market pressures to meet earnings expectations may risk damaging workers' health and safety to please investors.

Companies may create incentives for employees to increase productivity or reduce discretionary expenditures, but often these actions come at the cost of managers and workers paying insufficient attention to safety.

Dr. Naim Bugra Ozel, assistant professor of accounting in the Jindal School at UT Dallas, and his co-author Dr. Judson Caskey of UCLA, studied firms that meet or just beat analyst expectations. The study, published in the February issue of *The Journal of Accounting and Economics*, found that these firms have an injury rate roughly 12% higher than other firms.

Using injury data from OSHA and companies' financial data, the researchers examined company spending and worker output. They found that discretionary expenditures are associated with high injuries in firms that meet or just beat expectations, which is consistent with the conclusion that companies reduce safety-related expenditures, such as oversight and worker training.

The study also found that higher worker output is associated with higher rates of injuries in these firms.

'Our research suggests that there is also an increase in the workload of the employees, so it's not just cutting expenditures, but asking employees to work a little harder,' Ozel said. 'That might be in the form of overtime, or that might be in the form of putting in more work in a shorter time period. If employees are forced to work harder, they might inadvertently ignore the safety procedures themselves.'

The researchers identified three factors that affect the relationship between injuries and meeting or just beating expectations:

1. The relationship is weaker in highly unionized industries, which relates to unions' role in negotiating for and enforcing safety measures.
2. The relationship is weaker in firms with a large amount of government contracts, which relates to the government requiring certain safety standards.
3. The relationship is weaker in states where injuries translate into higher workers' comp costs.

The OHS Insider can help you make the business case for safety to senior management such as with this article on why putting production ahead of safety hurts the bottom line.