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Lessons Learned from Alcoa:

Establishing a Safety Culture to Improve Business Performance

By Stephen B. Paulin, CIC

Paul O'Neill shares his name with the five-time baseball All-Star who won five World Series and was an American League Batting Champion with a .359 average. This is where any similarity ends, as you would never confuse the 6' 4", 200 lb. right fielder with the slightly built, bookish intellectual who changed one of the nation's most well known companies. Paul O'Neill's Wikipedia profile, classifies him a Politician. He was the Deputy Director of the US Office of Management and Budget, and later served as Treasury Secretary to George HW Bush. However, his most enduring legacy was as Alcoa's CEO from 1987–1999. During his successful reign the company's market value increased from $3B in 1986 to $27.53B in 2000, while net income increased from $200M to $1.484B.

What's remarkable is how O'Neill was able to achieve this success employing a singular strategy that was prophetic and progressive almost 30 years ago. It separates him from other visionary CEOs such as Steve Jobs, Jack Welch, Jeff Bezos, and John Chambers. O'Neill brought to the forefront the notion of safety as a core value and competency to achieve greater productivity, increased profits and obtain a distinct competitive advantage. The focus on safety and its far reaching implications have become an embedded principle for many successful organizations.

The Aluminum Company of America – or Alcoa, manufactured everything from the foil that wraps Hershey's Kisses and the metal in Coca-Cola cans to the bolts that hold satellites together for over a century when O'Neill became CEO. At the time, the company was struggling. Critics cited the Pittsburgh company management's numerous missteps – unwisely expanding into new product lines, while product quality deteriorated, and competitors stole customers, killing market share and driving down its stock value and capitalization.

As you can imagine, Wall Street investors and stock analysts gathered eagerly in Manhattan to meet the new CEO and hear his plan to boost profits, reduce costs and reverse the company's downward slide. The audience, used to countless other similar introductions, expected a well-worn script beginning with a self-deprecating joke, a braggadocio brief background/experience statement, a high–concept action plan sprinkled with buzzwords and the jargon of the day, and concluding with Q & A. Instead, O'Neill went off-script, stunning attendees with what he said.

"I want to talk to you about worker safety. Every year, numerous Alcoa workers are injured so badly that they miss a day of work. Our safety record is better than the general workforce, especially considering that our employees work with metals that are 1500 degrees, and we have machines that can rip a man's arm off. But it's not good enough. I intend to make Alcoa the safest company in America. I intend to go for zero injuries."

While O'Neill was confident in his demeanor and delivery, a stunned silence engulfed the room, as the audience processed the disconnect between their expectations and O'Neill's statement. Where was the talk about efficiencies, regaining the competitive advantage and leading the charge back to profitability? After what seemed an interminable amount of time, an investor asked about inventories and revenue projections.

O'Neill held firm:

"I'm not certain you heard me. If you want to understand how Alcoa is doing, you need to look at the workplace safety figures. If we bring our injury rates down, it won't be because of cheerleading or the nonsense you sometimes hear from other CEOs. It will be because the individuals at this company have agreed to become part of something important: They've devoted themselves to creating a habit of excellence. Safety will be an indicator that we're making progress in changing our habits across the entire institution. That's how we should be judged."

With that, several Wall Street brokers hurried from the room to call their clients and advise that they sell all of their Alcoa holdings. Later, one of those brokers admitted, "It was the worst piece of advice I gave in my entire career.

Within a year, Alcoa's profits reached a record high. When O'Neill retired, the company's net income was five times higher than before he arrived, and the stock value increased 500%. All that growth occurred while Alcoa become one of the safest companies in the world. His safety plan transformed a record where almost every Alcoa plant had at least one accident a week, to some facilities going years without a single employee losing a workday. Alcoa's work injury rate fell to one-twentieth the U.S. average.

How did O'Neill make one of the largest, stodgiest, and most potentially dangerous companies into a profit machine and bastion of safety? Consider that when the previous CEO tried to mandate improvements, 15,000 employees went on strike. In O'Neill's words, "I knew I had to transform Alcoa. I decided I was going to start by focusing on one thing. I needed a focus that would bring people together, that would give me the leverage to change how people worked and communicated. It had to be something that everybody – unions and executives – could agree was important. I went to the basics – SAFETY. Everyone deserves to leave work as safely as they arrive, right? You shouldn't be scared that feeding your family is going to kill you. That's what I decided to focus on: changing everyone's safety habits." His bold goal: zero injuries.

Safety wasn't just the solution. It was a pathway to create an atmosphere open to change, and it became the foundation of a process that led the company back to profitability, and sustained it for decades to come. O'Neill knew that safety would connect people in all levels of the organization. Further changes would spring from this safety initiative, starting a chain reaction that changed other habits across the organization, resulting in improved business performance.

O'Neill introduced Alcoa to a "Culture of Safety" and made it an absolute priority. By valuing safety first, Alcoa was able to achieve unprecedented growth and profit. O'Neill launched his plan his first day on the job, when he told Alcoa's executives they weren't going to talk people into buying more aluminum and they weren't able to raise prices, so the only way to improve the company's fortunes was to lower its costs. They had to have the cooperation of Alcoa's workers. The best way to earn cooperation was to show workers that Alcoa actually cared about them. There was no room for bluffing or insincerity – Alcoa needed to make its first priority the elimination of all job-related injuries. O'Neill made it clear that any executive who didn't make worker safety his personal priority – above profit – would be fired.

O'Neill then met with the factory workers. He said that he was willing to negotiate on anything except workplace safety. The unions had been fighting for better safety rules for years so of course they were on board right away. Managers didn't want to argue with the safety initiatives because injuries meant lost productivity and low morale.

The key to protecting Alcoa employees, O'Neill believed, was understanding why injuries happened in the first place. To understand why injuries happened, you had to study how the manufacturing process was going wrong. This meant bringing in safety professionals who could educate workers about quality control and efficient work processes, making it easier to do everything right. The result was safer work. Through this process became the safest and most streamlined aluminum company in existence.

O'Neill's safety plan identified a simple touch point: employee injury. He instituted an automatic routine throughout the company: Anytime a worker was injured, the unit president had to report it to O'Neill within 24 hours and present a plan for making sure the injury never happened again. That meant that vice presidents had to be in constant communication with floor managers and floor managers needed to get workers to raise warnings as soon as they saw a problem. Workers learned to keep a list of suggestions nearby, so that when the vice presidents asked for a plan, there was an idea box already full of possible solutions. To make this happen, each unit had to build new communication system that made it easier for the lowliest worker to get an idea to the loftiest executives as fast as possible. Almost everything about the company's rigid hierarchy had to change to accommodate O'Neill's rigid safety program. Change management was in full swing and it was working because no one questioned it. Everyone was invested and engaged in achieving a common goal.

O'Neill followed his words with actions. The president of Alcoa Fujikura Ltd., a subsidiary with plants in the Acuna region of Mexico, was fired for failing to report three accidents where workers were exposed to carbon monoxide and butane gas. In a memo circulated throughout the company O'Neill wrote, "Some of you may think my decision is an unduly harsh response for a lapse in communication. I felt obliged to make it because of the effect of these matters on our values and the possible misrepresentation that there can be tradeoffs in these areas".

O'Neill would not have come up with the idea of focusing the entire company on workplace safety if he hadn't used his analytical mind to walk through the previously outlined linear progression. He knew that starting with this single objective would eventually translate into better product quality and streamlined efficiencies throughout the manufacturing process. The most important ingredient to the strategy is that he found something upon which executives, managers, and front-line workers could agree.

As Alcoa's safety patterns shifted, other aspects of the company started changing with startling speed as well. Rules that unions had spent decades opposing – such as measuring productivity of individual workers – were suddenly embraced, because such measurements helped everyone figure out when the manufacturing process was getting out of whack, posing a safety risk.

Policies that managers had long resisted – such as giving workers autonomy to shut down a production line when the pace became overwhelming were now welcomed, because that was the best way to stop injuries before they occurred. The company shifted so much that some employees found safety habits spilling into their personal lives. It clicked.

As O'Neill's new approach moved through the organization, costs came down, quality went up, and productivity skyrocketed. If molten metal was injuring workers when it splashed, the pouring system was redesigned, which led to fewer injuries. It also saved money because Alcoa lost less raw materials in spills. If a machine kept breaking down, it was replaced, which meant there was less risk of a broken gear snagging an employee's arm. It also meant higher quality products because, as Alcoa discovered, equipment problems were a chief cause of subpar aluminum.

In my risk management practice, I have met with hundreds of businesses and management teams that experienced chronically high workforce injuries and workers' compensation claims. Some so severe that it contributed to the company going out of business. While there may be numerous factors contributing to a deteriorating environment of increased work comp injuries (legitimate and fraudulent), there is a definite correlation between the existing relationship between management and its employees. A contentious relationship most often manifests itself in poor morale and employees acting out by filing work comp claims. The far-reaching consequences associated with the indirect/secondary claim costs include decreased productivity, diminished employee wellbeing, and encumbered product quality, which is ultimately realized on the bottom line as reduced profit.

What also makes the reduction in losses so phenomenal is typically injuries tend to increase during times of growth. This is attributed to management's focus on growth activities, including new hires, which tend to be the ones who are more often injured on the job. Alcoa achieved just the opposite.

O'Neill understood the financial benefits generated from his strategy to focus on employee safety, their wellbeing and collateral effect to improve on the organization's other areas of risk:

- Operational: increase efficiencies / reduced the cost burden
- People: enhanced productivity
- Strategic: more competitive in the industry
- Financial: capture lost profit

This concept doesn't just drive results for companies with higher risk operations or a history of high work place injuries. It is equally effective in situations where management perceives they are obtaining good results from the functioning safety program, not realizing how much further the program can be improved to achieve previously unrealized profit.

The recently released 2014 research on Risk Maturity Index conducted by The Wharton School at the University of Pennsylvania in association with a major international broker reconfirms the more committed a business is to risk management, the better the bottom line. The report, which updates the 2011 study, shows the continued correlation between enhanced risk management practices (Risk Maturity) and improved financial performance, profitability and organizational resilience after a loss as measured by return on assets, and return on equity among several other key performance indicators. Sited among the ten characteristics of risk maturity is C-suite understanding of and a commitment to risk management as a critical factor for decision making and for driving value. Further, a move from focusing on a silo approach toward risk avoidance and mitigation toward integration into corporate strategy, thereby leveraging risk and risk management options that extract value.

I have personally helped to achieve these results over and over again with privately-held businesses that adopt a culture of safety. It's a dynamic, collaborative system where best practices, which when applied in a defined process to identify, analyze, and mitigate the cost drivers, while monitoring and measuring with accountability improves business performance. How new hires are prescreened, motivated, trained, and embraced by the organization are all important elements of a quality safety culture.

The important take-a-way is that this strategy worked because it found common ground among all of the stakeholders and got people to rally around it without question. CEO Paul O'Neill knew that if he could accomplish this he was going to achieve an execution culture with streamlined communications and more efficient processes that would eventually translate into better performance results.

He did it by attacking one universally agreed upon idea among those involved and then letting further changes spring from this single idea, starting a chain reaction that soon changed other habits across the organization. This change management technique relies on identifying one or a few key priorities and fashioning them into powerful levers.

"Culture Eats Strategy for Breakfast"

— Peter Drucker

The strategy to return Alcoa to profitability could only have been accomplished by changing the company culture. The culture of safety became the foundation to create a more engaged workforce that collaborated more effectively with management, which had wide ranging downstream implications.

"Culture eats strategy for breakfast", a phrase originated by Peter Drucker and made famous by Mark Fields, President at Ford, is an absolute reality! A truly successful business strategy can only achieve the intended results when it is executed on a firm foundation of core values that are aligned throughout the organization. Any company disconnecting the two is putting their success at risk. Culture and strategy are inextricably connected. Neither can be considered separate and distinct but rather part and parcel of the organization's thinking.

However, while many studies show there is a direct correlation between a healthy, productive culture and a company's bottom line, the majority of companies spend little time thinking, let alone doing anything, about this topic – even when they're spending lots of time thinking about their business strategy.

To paraphrase O'Neill's initial statement, if someone wants to understand how your business is doing, what story would your workplace safety figures and culture tell?

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