

Great Plans – Unintended Consequences

July 2011

We've all heard of the Law of Unintended Consequences. It's amazing how it creeps surreptitiously into so many great business plans.

Great plans can solve real problems ~

- A multi-location retail chain with challenging Workers' Comp losses decides to set up an incentive plan for store managers. Fewer losses would mean higher bonuses.
- An expanding service company needed reliable customer service calls and decided to provide company cars to key technicians. Regular car maintenance and a good looking fleet would improve dependability and enhance the company image.
- A fast-growing professional firm was swamped with new customer contracts and lots of new insurance coverage needs. They had little time and no real experience, so they decided to let their new insurance broker handle everything.
- Other "great plans" I've seen recently include a spiffy new marketing-oriented website and a business owner spending money to be a better acquisition target. And then there is Georgia's state school system wanting teachers to improve under-performing schools – what a great plan.

What could go wrong?

When we don't recognize that some of the problems are complex and not subject to simple solutions, or that conflicts of interest can get in the way, a lot can go awry.

- Incentives are supposed to alter behaviors – but it depends what you measure. If you measure employee injuries, isn't one option to just not report seemingly minor accidents? This can result in much larger claims down the road in addition to insurance fines and safety penalties.
- Company cars can solve one problem and create others: losses can skyrocket with personal, weekend and family use, for example. A "bad" weekend accident can negatively impact a company's reputation. Clear policies and careful procedures can have a beneficial impact on accident frequency and severity.
- A newly chosen insurance broker with little prior industry experience and limited time for contract reviews can miss a large number of insurable exposures. Gaps and misunderstandings occur when you "abdicate" anything with little understanding or oversight – your car to the mechanic, your IT system to a geek on adrenaline, or something as complex as your insurance program to a broker.
- Georgia is now investigating 178 teachers and principals for possible cheating – changing student answers to show improvement, keep their funding and save jobs.

Unintended consequences seem to hide around every corner. The Risk Manager wants to avoid these risks by using two tried and true techniques:

1. Clear communication – with input from all sides, and
2. Careful oversight for complete understanding and goal fine-tuning along the way.

Call or email with additional thoughts and examples – or to discuss concerns.