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Performance Measurement in Workers' Compensation Systems

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Citation

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Interest in performance measurement and performance management has expanded remarkably in the past 25 years. This interest has spawned many initiatives, both private and public. One of the most ubiquitous has been the “balanced scorecard.” This initiative developed out of the work of two professors at the Harvard Business School in the early 1990s (Kaplan and Norton 1992), and was based on the fundamental concept that there are (or should be) multiple objectives and thus multiple dimensions for performance measurement. Kaplan and Norton urged that the financial perspective should be complemented by a customer perspective, an internal process perspective, and an organizational learning and growth perspective. Only then could performance measurement fully serve the strategic objectives of the modern enterprise (Kaplan and Norton 2001).

While the balanced scorecard was finding application in private business, nonprofits, and local government entities, the federal government was conducting a National Performance Review, under the leadership of Vice President Al Gore (1993). This gave a boost to a pending piece of legislation that was enacted under the title of the Government Performance and Results Act of 1993, or GPRA. This act is the latest in a series of government attempts at “performance budgeting,” including the Planning-Programming-Budgeting System of 1965, Management by Objectives of 1973, and Zero-Base Budgeting of 1977 (U.S. General Accounting Office 1997).

However, GPRA differs from those earlier efforts in that it also imposes a planning and evaluation process designed to influence program effectiveness and budgeting decisions. Five-year strategic plans
are required from all federal agencies (with revision every three years) together with an annual performance plan that has credible outcome-based goals. Further, these “good intentions” are enforced by the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART), which is being applied across all federal government agencies and programs on a five-year cycle. In fact, OMB conducted PART evaluations on 234 federal programs during fiscal year 2002–2003 and plans to complete 411 during fiscal year 2003–2004.

PART rates programs as “effective, moderately effective, adequate, results not demonstrated, or ineffective” based on four criteria. Twenty percent of the evaluation is based on management, 20 percent on program purpose and design, 10 percent on planning, and 50 percent on program results (U.S. General Accounting Office 2004). While it is too early to judge the success of PART and GPRA, these efforts certainly represent a manifestation of the growing interest in program effectiveness and program evaluation in the federal government and elsewhere. (See U.S. General Accounting Office 2004 for a critical view.)

There are many other illustrations of the interest in performance measurement in public programs. The International City/County Management Association was an early advocate for more effective performance measurement and management (see Morley, Bryant, and Hatry 2001). Today the CPM Consortium project includes well over 100 participating cities and counties who are seeking to improve their own performance, partly through benchmarking to other similar entities. The Organisation for Economic Co-operation and Development (OECD) published an occasional paper on performance measurement in 1994, which combined a “how-to” manual with specific examples of efforts in various countries. Paralleling the balanced scorecard approach, OECD listed the following “dimensions” of functional performance measurement: economy measures, efficiency measures, effectiveness measures, service quality measures, and financial performance measures (OECD 1994).
HISTORY OF PERFORMANCE MEASUREMENT IN WORKERS’ COMPENSATION

Workers’ compensation systems have not historically been leaders in the adoption of performance measurement or performance management techniques. In fact, one could argue that these programs have been somewhat of a backwater for performance measurement. Workers’ compensation systems tend to be iconoclastic, with relatively little comparability across jurisdictions (see U.S. Department of Labor 2002 for what can be easily compared). This is because such systems are the result of a complex interplay of statutory language, legal interpretation, and administrative practice, all of which are specific to each jurisdiction. It is little wonder that the situation can be characterized as “a tower of babel.”

The lack of comparable performance measures among workers’ compensation systems also meant that it was difficult to tell which policy initiatives worked across jurisdictions. Workers’ compensation reform was characterized by veering to one side or the other, depending upon whether the friends of labor or the friends of employers were in political control. It was frustration with this situation that led to the establishment of the Workers Compensation Research Institute (WCRI) in 1983.

The Workers Compensation Research Institute is an independent, not-for-profit research organization providing high-quality, objective information about public policy issues involving workers’ compensation systems. It is funded by memberships with annual dues set according to the size and type of organization. Membership includes workers’ compensation insurers, large employers, and employer associations. Associate members include many state and provincial workers’ compensation administrative agencies in the United States, Australia, and Canada as well as a handful of labor organizations.

One of the earliest research programs at WCRI was the “administrative inventory” series. According to the first of these, “This is the first of a series of Administrative Inventories of state workers’ compensation systems. The purpose of the series is to describe and offer convenient data on how the different systems function, to allow interstate comparison” (Barth 1987, p. 3).
Administrative inventories have now been performed in some 24 U.S. jurisdictions, several of them more than once (see WCRI 2003). While they may not have been as effective in allowing interstate comparisons as originally thought, they have gone a long way toward facilitating communication across systems and increasing general understanding of different workers’ compensation systems.

Another objective of WCRI was to determine “best practice” among workers’ compensation systems, which of necessity implies a comparative perspective. The motivation for this is to provide guidance for reform; one has to know what works if one is to improve the performance of a workers’ compensation system. “Our past research has shown that public officials and stakeholders in a particular state generally understand how their own system performs, but their ability to make meaningful and credible comparisons between their system and those of other states is severely limited” (Telles, Wang, and Tanabe 2004, p. 3).

The earliest work that included explicit interstate comparisons at WCRI involved a review of medical cost trends in 43 jurisdictions (Boden and Fleischman 1989). This was followed by a study of cost drivers in six state systems (Victor et al. 1992). The development of a multistate database for the express purpose of making comparisons among state systems followed logically from these efforts and the first CompScope™ multistate comparison study appeared in 2000 (Fox, Casteris, and Telles 2000).

Recently the fourth edition of this reference work was released (Telles et al. 2004). It provides detail on nearly 60 performance measures for 12 states over the period 1996–2001. Comparable definitions have been used and the data have been standardized for wage levels, industry employment, injury mix, and benefit waiting period. Thus, the emphasis of this effort is on comparing “apples to apples” even if that causes some tension with unadjusted system statistics that may be published elsewhere. As the fourth edition puts it, “The annual benchmarks of system performance collected here enable policymakers and stakeholders to better manage and continuously improve their systems and avoid the historic cycles of crisis-reform-crisis that have frequently characterized workers’ compensation systems” (Telles et al. 2004, p. 3).

Most recently, WCRI has initiated a new series of comparative studies of self-reported outcomes for injured workers (Victor, Barth, and
Liu 2003). These telephone surveys of injured workers in four states compare critical outcome dimensions, including physical recovery; satisfaction with, access to, and quality of medical care; and durability of return-to-work results. We look forward to the expansion of this series to additional states in the future.

Predating WCRI was the series of workers’ compensation employer cost studies conducted by John F. Burton, Jr. and various collaborators over the years. These studies began with Burton’s Ph.D. dissertation at the University of Michigan in 1965, partly sponsored by the W.E. Upjohn Institute for Employment Research. The most thorough description of the methods used in this research is in Thomason, Schmidle, and Burton (2001). Burton and his coauthors have replicated and refined this study over the years to provide a more or less continuous record of employers’ cost of workers’ compensation coverage over several decades.

Burton’s measures are developed from National Council on Compensation Insurance data that are used for rate-making for workers’ compensation insurance policies written by private insurers in approximately 40 states, and supplemented by comparable data in other states with available information. An expanded version that includes data from public funds, self-insured employers, federal workers’ compensation programs, and including adjustments for additional technical problems (like large deductibles) is published annually by the National Academy of Social Insurance (NASI); the most recent version is *Workers’ Compensation: Benefits, Coverage, and Costs, 2001* (NASI 2003).

Another workers’ compensation cost study, the *Oregon Workers’ Compensation Premium Rate Ranking* study, is performed biannually by the Oregon Department of Consumer & Business Services. It provides explicit comparisons of premium levels for the 50 largest workers’ compensation classifications in Oregon across all 51 states. This study was developed to track Oregon premium rates relative to other states, and therefore qualifies as an aggregate performance measure.

Finally, there is a “workers’ compensation report card” developed and promoted by the Work Loss Data Institute.² It is composed of data elements from Occupational Safety and Health Administration log reports, and awards letter grades to state workers’ compensation systems depending upon the state’s performance on the aggregate injury incidence rate, the percentage of injuries that involve lost workdays,
the median duration of disability, the proportion that are long duration cases, and state experience with low back strain and carpal tunnel injuries.

So there is the beginning of a performance measurement movement in workers’ compensation. While not all these workers’ compensation measures were developed with performance management in mind, they do constitute performance measurement for some purpose. The distinction is between measures that are or may be under the control of some entity, as opposed to those that seem to simply express the outcome of some process without a specific controlling entity. For instance, it would be difficult to hold some particular individual or organization responsible for the level of workers’ compensation costs in a jurisdiction. But it would be reasonable to hold a claims administration agent responsible for the timely payment of wage replacement benefits. Let us turn our attention now to collective efforts at measuring the performance of workers’ compensation systems that are presumably designed to improve that performance.

BENCHMARKING WORKERS’ COMPENSATION SYSTEMS

Canadian Benchmarking

The Canadian workers’ compensation boards have led the way in developing system benchmarks and making them available to the general public. The Association of Workers’ Compensation Boards of Canada (AWCBC) maintains a Web site where anyone can view some 24 performance measures and 6 “indicator ratios” for each of the 12 Canadian provincial systems. The chief financial officers of the Canadian boards have developed a common set of definitions for key statistical measures (KSMs) and indicator ratios which can be used to describe the workers’ compensation insurance systems in Canada, and to provide comparisons across jurisdictions. This effort dates to the mid-1990s and has been gradually refined over the past decade.

The KSMs are published in both tabular and graphical format, with extensive explanatory detail. The AWCBC data also include self-insured employers, which are reported separately. While the measures reported may have a financial bias, there are also measures of incidence, time-
liness of payment, duration, and severity. Furthermore, the consistent reporting of these measures across jurisdictions and across time means that judgments can rather easily be made about relative performance.

This is demonstrated in Figure 6.1, which shows the injury frequency rate by province. It shows that injury frequency is relatively high in Manitoba and low in New Brunswick and Ontario. Further, the three years of trend data demonstrate that the overall Canadian injury frequency was declining from 2000 through 2002. This was also true for most, but not all, provincial systems.

Figure 6.2, however, indicates that the severity of injury was relatively high in New Brunswick, with more than 10 percent of claims receiving impairment benefits, compared to Manitoba, where less than 2 percent of all claims did. So it seems that Manitoba has many minor injuries, which accounts for its higher overall injury frequency. This observation might lead one to look at the differences in benefits from a policy perspective. Are these two provincial systems trying to do the same thing, or something different?

Figure 6.2 shows that the percentage of claims receiving impairment benefits was also relatively high in Quebec and Nova Scotia. Furthermore, the proportion of claims that received impairment benefits was rising for the median province, i.e., injuries appear to be growing more severe, even as their number is being reduced.

Figure 6.3 indicates that the cost of workers’ compensation coverage for Canadian employers hovered around C$2 for the period from 2000 to 2002, ending at C$1.95 in 2002. Costs were higher than average in the Maritime provinces and lower than average in Alberta, Manitoba, Northwest Territory, Saskatchewan, and Yukon Territory. In the population centers of British Columbia, Ontario, and Quebec, workers’ compensation costs were close to the weighted average.

Figure 6.4 refers to the timeliness of payment by the workers’ compensation board in Canadian workers’ compensation systems. It shows the average calendar days from the date of injury to the date of the first payment for all jurisdictions except Quebec. There are clear differences among the systems, with Alberta and British Columbia being on the quicker side with performance in the 20- to 25-day range; Ontario and Prince Edward Island are on the slower side at about 40 to 45 days.

There are obviously many more performance measures available from this source. Taken together, they convey a fairly detailed picture of
Figure 6.1 Injury Frequency (per 100 workers of assessable payrolls)

Figure 6.2 Percentage of Claims Awarded Impairment Benefits, 2000–2002

Figure 6.3  Actual Average Assessment Rate for Assessable Employers, 2000–2002

Figure 6.4  Average Calendar Days from Injury to First Payment Issued, 2000–2002

NOTE: n/a = data not available.
the performance of Canadian workers’ compensation systems. Because
the definitions have been developed jointly, we can also be relatively
confident that they are comparable, although there are always qualifica-
tions that reflect unique system aspects.

AUSTRALIAN BENCHMARKING

In Australia, the Workplace Relations Ministers’ Council (represent-
ing Workplace Relations Ministers from each state) publishes a Com-
parative Performance Monitoring report for the occupational health and
safety and workers’ compensation schemes in Australia and New Zea-
land. See Workplace Relations Ministers’ Council (2003) for the fifth
such report.

There are 103 figures presented and classified under the categories
of occupational health and safety (25 figures), workers’ compensation
(21 figures), return to work (9 figures), and industry-specific indicators
(48 figures). The presentation is particularly thorough, with multiple
views of the same or similar information displayed in several different
ways.

Australia has exclusive fund states (Queensland), traditional pri-
ivate insurance jurisdictions (Western Australia, Tasmania, and North-
ern Territory), and three states (New South Wales, South Australia,
and Victoria) have mixed systems of public-sector underwriting and
private-sector claims administration that have been dubbed “the third
way” (see Barth et al. 2000). Because of this institutional variety, there
has been a great deal of national interest in comparing the performance
of the different jurisdictions.

Figure 6.5 shows the unadjusted incidence of compensated injuries
and diseases that resulted in at least one week off work for seven Aus-
tralian jurisdictions. It appears that the Northern Territory, Victoria,
and Western Australia had relatively low workers’ compensation claims
incidence in 2001–2002. New South Wales and South Australia had
higher claims incidence than the Australian average.

Australian jurisdictions do not report severity in a comparable way
to Canadian systems, but Figure 6.6 shows the incidence of claims in-
volving at least 26 weeks off work. These would be serious injuries,
and certainly a much more restrictive definition than used for Canadian
Figure 6.5  Incidence Rate of Compensated Injuries and Diseases, by Jurisdiction, 2000–2002


Figure 6.6  Incidence of Claims with 26 Weeks or More off Work, by Jurisdiction, 2000–2001

jurisdictions in Figure 6.2. Figure 6.6 shows a twofold variation in the incidence of claims with 26 weeks or more of wage loss. Queensland and Tasmania are low, while New South Wales reports 3.3 claims per 1,000 employees. The Australian average was 2.6 claims per 1,000 employees in 2000–2001.

The cost of workers’ compensation coverage in Australia is presented in Figure 6.7. It shows the average premium rate for the latest three years, standardized for variation in industry mix, pension coverage, employer excess, and coverage of self-insurers in some jurisdictions. Costs demonstrate a twofold variation between the lowest in Queensland and the highest in New South Wales. The Australian average premium level rose from A$2.39 per 100 in 1999–2000 to A$2.47 per 100 in 2001–2002.
U.S. BENCHMARKING

As discussed earlier, in the United States there has not been the same degree of national interest in benchmarking workers’ compensation systems as in Australia or Canada. However, the Workers Compensation Research Institute (WCRI) has developed a series of detailed benchmark measures for a subset of 12 large U.S. states that represent more than 50 percent of the nation’s workers’ compensation benefit payments.

The major reason for this lack of interest may be that in most U.S. jurisdictions, the majority of workers’ compensation policies are written by private insurance companies. These companies compete vigorously with each other and do not welcome the opportunity to “tell their secrets” to the competition, or even to admit that they are doing well or poorly, since this could affect marketing results. Given the competitive atmosphere, even the public funds that compete with private insurers are loath to reveal their operating results. Yet, historically the workers’ compensation insurance industry has been regulated by public entities. The net effect of this environment was a data reporting system that was narrowly construed to enable public regulation without conveying much information.

The CompScope™ effort of WCRI is a welcome break from this tradition. However, the CompScope™ measures themselves reveal a different bias. They are designed to compare the operation of workers’ compensation systems, but tend to focus on claims administration issues rather than overview measures. For instance, CompScope™ includes measures of average medical cost containment expenses per claim, but does not include the incidence of claims for the system as a whole.

Figure 6.8 shows the proportion of all claims with more than seven days of lost time that involve 26 weeks of disability or more. This measure is presented to maximize comparability with the Australian figures reported earlier. Among these 12 states, Wisconsin and Indiana have the lowest proportion of extended duration claims, closely followed by Tennessee and Illinois. California, Texas, and Louisiana have the highest proportion of extended duration claims, each at 25 percent or more of all wage-loss claims. For the 12 states, the median is 18 percent of wage-loss claims that extend for 26 weeks or more. Although the numbers were presented as incidence rates for Australian jurisdictions,
Figure 6.8 Proportion of Claims with More Than 26 Weeks Paid Duration for Selected U.S. Jurisdictions

an average of 14 percent of claims involved extended wage loss. So, American injuries appear to be comparable at least for this sample of 12 states.

Analogous to the data presented on Canadian systems in Figure 6.2 would be the proportion of wage-loss claims that receive permanent partial disability (PPD) payments in U.S. jurisdictions. These numbers are presented in Figure 6.9. It shows that 14 to 38 percent of wage-loss claims receive PPD payments, with a 12-state median of 23 percent. States with a low proportion of PPD payments include Pennsylvania, Massachusetts, Louisiana, Connecticut, and Indiana. High PPD proportions are found in Texas, California, and Florida. Thus, the proportion of claims receiving PPD payments in U.S. jurisdictions appears to substantially exceed the proportion receiving impairment benefits in Canadian provinces.

Unfortunately, there is not a source of state workers’ compensation cost data that compares directly to the Canadian and Australian figures presented earlier. Figure 6.10 shows the average workers’ compensation benefits paid per $100 in covered wages for 2001 reported by the National Academy of Social Insurance. High benefit–cost states were California, Pennsylvania, and Florida. Low benefit–cost states were Massachusetts and Indiana. The median benefit–cost for the 12 states listed was $0.91 per $100 of covered payroll.

Finally, Figure 6.11 shows the timeliness of first indemnity payment for the selected U.S. jurisdictions. These data from the CompScope™ database indicate that the median state needs 63 days from the date of injury to the first indemnity payment. This is significantly slower than the Canadian average at 35 days from injury to first payment in 2002. Massachusetts was the quickest at 50 days, and North Carolina was the slowest at 77 days.

Benchmarking of workers’ compensation systems has come a long way in the past decade. None of these measures was available 10 years ago. And some very preliminary judgments can be made about comparative system performance. However, there is still a great deal of haze surrounding system performance assessment as represented in the benchmarking efforts. Let us turn now to the state of the art in performance measurement in individual workers’ compensation systems.
Figure 6.9  Proportion of Wage-Loss Claims that Receive PPD Payments for Selected U.S. Jurisdictions

As discussed earlier, workers’ compensation systems have not been among the leaders in developing performance measurement tools. However, many jurisdictions now appear to be catching up and are able to take advantage of the experience that has accumulated in other types of organizations. Workers’ compensation is a “data rich” environment, and that has been the source of many problems. In the old paper processing systems, the sheer volume of paper documents was simply overwhelming. But with modern scanning and character recognition technologies, it has become possible to compile data more expediently and more economically.

The International Association of Industrial Accident Boards and Commissions (IAIABC), the professional association for administrators of workers’ compensation systems, began encouraging consistency in electronic data collection in the early 1980s. As many workers’ com-

Figure 6.10  Workers’ Compensation Benefits Paid Per $100 of Covered Wages for Selected U.S. Jurisdictions

Figure 6.11  Time from Date of Injury to First Indemnity Payment, Selected U.S. Jurisdictions

Compensation systems began investigating the possibility of migration from paper to electronic record keeping, the electronic data interchange standards of IAIABC provided guidance and reassurance. However, as of September 2002 (latest available statistics), only 24 states were using the claims reporting standards (since revised twice) and 5 more were planning to use them. That left 21 states that were not yet using the standard format after nearly two decades of experience.

There are, however, a number of impressive performance measurement systems currently in place throughout the workers’ compensation world. These performance measurement systems are specifically designed to support the management of the workers’ compensation function. They include targets or goals, with an accountability standard that defines acceptable levels of performance. They also are measured with greater frequency, to support operational requirements. Let’s begin with the IAIABC Information Product Award winner in 2003 for “program improvement.”

**NOVA SCOTIA WCB**

The Nova Scotia WCB Performance Measurement and Management System (PMMS) emphasizes empowering WCB employees by giving them the necessary information to align their personal work goals with organizational objectives. This is illustrated by Figure 6.12, which shows the performance model underlying the PMMS. It indicates that the goals of the organization are defined from the top down, but performance is measured from the bottom up. Individual performances add up to team performance, which in turn cumulates to unit and then department performance. All departments taken together constitute corporate outcomes.

The PMMS system uses performance bands to define expected performance norms based on past experience. These “dashboard indicators” define adequate (green), marginal (yellow), and unacceptable (red) performance for each performance measure and at each organizational level. In this way, individuals or teams with performance problems can be identified and targeted for additional training or assistance as determined by management.
The primary performance indicators are

- timeliness,
- return-to-work outcomes,
- claim durations,
- claim costs,
- staff availability, and
- stakeholder satisfaction.

The system is a proprietary, Web-based application designed so that each user is assigned an appropriate level of access as well as the necessary performance level indicators. Thus, individual caseworkers may access their own monthly performance results, as well as their team, unit, and department performance results, but they cannot access anoth-
er individual’s results. Similarly, a team manager has access to results for her/his department, unit, and team, plus the individuals in the team, but not for other teams or individuals. There are seven distinct levels of security access built into this system.

For each performance area, the software permits “drill-thru” to more refined or specific measures. For example, the corporate timeliness of payment measure allows drill-thru to the five different client service units, which are organized geographically. Data (and dashboard indicators) are displayed for the current month and the previous month, as well as the threshold levels for green, yellow, and red indicators. A human contact for more information is also listed. Additional drill-thru to teams and individuals on this measure is also available. When you get to the individual worker level, data are displayed for the last eight measurements (typically months). This permits easy identification of performance problems and enables quick intervention for remedial efforts or workload rebalancing.

The PMMS system also delivers management information reporting that supports day-to-day operational management. For instance, there is a “Medium High Caseload Report,” which identifies units, teams, or individuals with relatively high caseloads. The report assigns each claim a status and weight, based on specific activities happening with the claim. The system is designed to represent the amount of effort that would typically be required for a case of that status. Management can then work with this list to maintain more equitable file distribution and resultant work effort.

The WCB of Nova Scotia reports that users indicate that the software tool is “intuitive and relevant to their work.” Eighty-five percent of staff surveyed in 2002 indicated that they understood how they could meet their personal performance targets. The board of directors has also expressed a high level of satisfaction with the information they receive monthly from the PMMS. The bottom line is that timeliness for first payment improved from 60.5 percent in May 2002 to 81.5 percent in May 2003.
Another state-of-the-art performance measurement system is that of the WCB of British Columbia. Their Web-based system is called “Decision NET,” which was developed as a balanced scorecard system operating through ordinary Web browsers. The Decision NET system reports at the corporate level (complete with dashboard indicators) and the divisional level, which in British Columbia includes assessments, compensation, and prevention. This performance measurement system follows more of a “top down” approach than that in Nova Scotia. In fact, it was developed partly from an earlier key performance indicator (KPI) system used by management at the WCB of British Columbia.

There are 15 performance measures included at the corporate executive view, with dashboard indicators for financial, human resources, operations, and customer perspectives. There are three indicators to represent the financial perspective, five indicators for the human resources perspective, four indicators for the operational perspective, and three indicators for the customer perspective. Of course, one can drill down for more detail within each broad area.

For example, in the financial perspectives domain there are three performance measures: 1) the unfinalled claims liability index, 2) administration expenses, and 3) surplus (deficit) from operations. In late 2003, two of these dashboard indicators were at acceptable levels (green) and one was unacceptable (red). Against a budgeted deficit of $405.5 million year to date, actual performance was a deficit of only $13.9 million, resulting in a green dashboard indicator. A caption explains that if either the operating surplus (deficit) or actual fund balance are below budget for the year to date, the entire indicator is negative.

The fund balance showed an actual deficit of $420.6 million against a budgeted level of $812.2 million, so both measures were better than budgeted and the dashboard indicator is green. The figure for last period (previous year to date in this instance) is also reported for comparison purposes. This provides a sense of the trend in the performance measure which may be important in interpreting the indicator.

An unfavorable (red) dashboard indicator was shown for unfinalled claims liability. As explained in a caption, claims costs were unfavorable due to higher incidence and older long-term disability claims than planned. Older claims generally result in larger “catch-up” payments
and, hence, higher average current costs for LTD claims. This unfavorable trend was not sufficiently offset by favorable trends in short-term disability, health care, and vocational rehabilitation costs.

There are similar displays for the other performance measures in the Decision NET system. Most indicators are reset monthly, but on different schedules according to the reporting cycle of the underlying data. Thus, the entire reporting system is renewed monthly, but is not held hostage to one late reporting number or one data verification problem.

There are other performance measurement systems in the workers’ compensation universe that have very good reputations. These include those of the New York WCB and the State Accident Insurance Fund of Oregon. No doubt, private sector insurers have some sophisticated performance measurement systems as well. However, these two Canadian systems illustrate the state of the art of performance measurement that is possible today.

OFFICE OF WORKERS’ COMPENSATION PROGRAMS, U.S. DEPARTMENT OF LABOR

There is one additional measure that should be cited. The Office of Workers’ Compensation Programs (OWCP) in the U.S. Department of Labor has developed what may be the ultimate single outcome measure for a workers’ compensation agency. In response to the pressures generated by the Government Performance and Results Act discussed earlier, OWCP decided to measure production days lost due to workers’ compensation claims in the federal employing agencies, and to evaluate OWCP performance in terms of reduction in average lost production days.5

Lost production days may be the ultimate performance measure for a workers’ compensation agency, because it represents both the incidence of claims and their duration. A reduction in lost production days is clearly a good thing for both workers and employers.

This system was implemented originally as a way to track performance under the Quality Case Management program, a nurse case management system designed to return long-term Federal Employees’ Compensation Act (FECA) claimants to employment. The average reduction in lost production days has been nearly 20 percent from 1997
to 2004. Using this measurement to manage performance over time appears to have been very productive for those involved in the program. This is demonstrated in the fact that the lost production day (LPD) measure was extended to the entire FECA program in fiscal year 2001. It has subsequently been adopted under the President’s Safety, Health and Return-to-Employment initiative for all federal employees for 2004–2006. OWCP reports results on this and other performance measures by agency on their Web site (http://www.dol-esa.gov/share/).

CONCLUSIONS

Performance measurement has clearly gained at least a tenuous foothold within some workers’ compensation systems in North America. One gets the impression that the “state of the art” is better in Canada than in the United States. But that impression could be mistaken; perhaps it results from the more competitive workers’ compensation environment in the United States, which leads insurers to think of performance measurement systems as a part of their competitive advantage. This could lead in turn to a more secretive approach to these issues.

The performance measurement systems in Nova Scotia and British Columbia are impressive. They incorporate multiple dimensions and show considerable innovation in measuring very complex outcomes. Nova Scotia’s PMMS seems particularly well suited to their objective of bringing corporate goals into play at each worker’s desk. We look forward to seeing how performance measurement might translate into performance management over the next several years.

The benchmarking efforts in Australia, Canada, and the United States also seem promising. The measures are generally appropriate and cover many of the most important dimensions of workers’ compensation system performance. Benchmarking may represent an approach that is closer to “the least common denominator” than to “state of the art.” But one can certainly see how the knowledge that a system is lagging in performance behind its peers could be politically embarrassing. It remains to be seen whether laggard performers will mount an effective effort to improve. This may depend more upon stakeholders’ attitudes than on the benchmarking results, but at least the benchmarking can provide some impetus for change.
On the other hand, there are also limits to the role of performance measurement in workers’ compensation systems. First must come the dictum that “what gets measured gets done.” To a large degree this is true, especially if compensation or other personal benefits are tied to achievement of measured results. However, another question is, “what is not measured?” It seems clear that concentration on achieving one goal of complex systems like these will likely come at the expense of other goals. It may not be evident immediately, but the time and energy that goes into achieving the stated goal will be diverted from some activity with an unstated goal. This may or may not be a problem, but the issue should be carefully examined to make sure that the net result is not unintended.

Recent accounting scandals in private industry (Enron, Global Crossing, etc.) show another danger of performance measurement. Sometimes people cheat to make sure they achieve the goals. Measurement systems are only as good as the underlying data, and if anyone has the incentive and the opportunity to inflate performance data for personal advantage, it is a serious threat. The surprising aspect of recent scandals is how few people it apparently takes to successfully corrupt a performance measurement system.

The other question is, “what happens when things go bad?” The savvy executive knows that is the time to change the performance measurement system. On the other hand, corporate and public governance systems should be capable of dealing with this issue. Performance goals must be realistic and achievable, or they will not motivate performance. But this means they must reflect the underlying reality, and that reality may change rapidly. So performance goals must also be flexible.

Since forces like economic conditions, demographic trends, policy changes, etc., are outside the control of workers’ compensation administrators, it is unfair to expect that their influence should be controlled by management. Thus, it seems critical that some agreed upon process for setting and modifying system goals be established. Otherwise, the performance measurement system may come to be seen as simply an apologist for management.

Finally, observers ask whether performance measurement is just “the flavor of the month?” This seems unlikely, since it is part of a much broader trend in government, education, and private enterprise. But ultimately, performance measurement must be adopted by stakeholders
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as an important part of system management and governance if it is to truly reach its promising potential. It is still early in the history of performance measurement in workers’ compensation; it remains to be seen how much performance management it will lead to. We look forward to watching this process unfold over the next several years.

Notes

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1. See http://www2.icma.org/CPMParticipants/ for current list.
4. The published version of the report also includes New Zealand, the Australian Capital Territory (ACT) system, the Seacare system, and the Comcare system for Australian government employees.
5. It should be noted that OWCP maintains a number of other performance measures that are not covered here. See U.S. Department of Labor (2004).
References


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