



Engaged for Safety

From your workplace safety partners at Engage PEO

Safety as a Core Business Strategy

Industry studies report that companies who focus on safety as a core business strategy come out ahead. Consider the following as reported by the American Society of Safety Engineers:

- A coal mining company in West Virginia reduced its workers' compensation rate to \$1.28 per \$100 payroll vs. its competitor's rate of \$13.78.
- Implementation of an OSHA consultation program reduced losses at a forklift manufacturing operation from \$ 70,000 to \$ 7,000 per year.
- A fall protection program implementation reduced one employer's accident costs by 6 percent - from \$4.25 to \$0.18 per person-hour.

Use these examples to understand how safety programs will directly affect your company's bottom line.

Safety Programs and the Impact to Your Bottom Line

If you could save your company money, improve productivity and increase employee morale, would you? According to OSHA, workplaces that establish safety and health management systems can reduce their injury and illness costs by 20 to 40 percent. Safe environments also improve employee morale, which positively impacts productivity and service. When it comes to the costs associated with safety, consider the following statistics from OSHA:

- Employers pay almost \$1 billion per week for direct workers' compensation costs alone, which comes straight out of company profits.
- Injuries and illnesses increase workers' compensation and retraining costs.
- Lost productivity from injuries and illnesses costs companies roughly \$63 billion each year

Measuring the Cost of Safety

Demonstrating the value of safety to management is often a challenge because the return on investment (ROI) can be cumbersome to measure. Your goal in measuring safety is to balance your investment vs. the return expected. Where do you begin?

There are many different approaches to measuring the cost of safety, and the way you do so depends on your goal. Defining your goal helps you to determine what costs to track and how complex your tracking will be.

For example, you may want to capture certain data simply to determine what costs to build into the price of a product or service, or you may want to track your company's total cost of safety to show increased profitability, which would include more specific data collection like safety wages and benefits, operational costs and insurance costs.

Since measuring can be time consuming, general cost formulas are available. A Stanford study places safety costs at 2.5 percent of overall costs, and a study published by the Economist Intelligence Unit (EIU) estimates general safety costs at about 8 percent of payroll.

If it's important for your organization to measure safety as it relates to profitability, more accurate tracking should be done. For measuring data, safety costs can be divided into two categories. Direct, or hard costs, which include:

- Safety wages
- Operational costs
- Insurance premiums and/or attorney's fees
- Accidents and incidents
- Fines and/or penalties

There are also indirect, or soft costs, which go beyond those recorded on paper, such as:

- Accident investigation
- Repairing damaged property
- Administrative expenses
- Worker stress in the aftermath of an accident resulting in lost productivity, low employee morale and increased absenteeism
- Training and compensating replacement workers
- Poor reputation, which translates to difficulty attracting skilled workers and lost business.

In today's business environment, safety-related costs can be the difference between reporting a profit or a loss.

How Can You Show ROI?

OSHA studies indicate that for every \$1 invested in effective safety programs, you can save \$4 to \$6 as illnesses, injuries and other incidents decline. With a good safety program in place, your costs will naturally decrease. It is important to determine what costs to measure to establish benchmarks, which can then be used to demonstrate the value of safety over time.

Also, keep in mind that your total cost of safety is just one part of managing your total cost of risk. When safety is managed and monitored, it can also help drive down your total cost of risk.

When calculating soft costs, minor accidents costs are about four times greater than direct costs, and serious accidents about 10 to 15 times greater, especially if the accident generates OSHA fines or litigation costs.

According to IRMI, just the act of measuring costs will drive improvement. In theory, those providing the data become more aware of the costs and begin managing them. This supports the common business belief that what gets measured gets managed. And, as costs go down, what gets rewarded gets repeated.

Contact Engage Risk Management to learn more about our value-added services and assistance with developing your safety program.