

How to Use Return on Investment to Win Executive Support for Your Environmental Program



Most for-profit companies are in business for the same reason: To make as much money as possible for their owners and shareholders. As an Environmental Health and Safety (EHS) coordinator, you must accept this reality and use it to your advantage. How? By demonstrating that environmental compliance isn't just a necessary evil or moral obligation but an investment that directly contributes to positive financial performance. More precisely, you must show that the dollars your company invests in the EHS program will have a positive return on investment (ROI).

What Is ROI?

ROI is a measure that Chief Executive and Financial Officers (CFOs) use to determine if spending money on a project makes financial sense. In addition to making go/no go decisions, ROI is used for comparing investment options to each other, such as deciding between buying new machines or retrofitting old ones.

A positive ROI basically means that the benefits yielded by the investment are greater than the amount of the original investment. A negative ROI means the opposite. Although there

are different variations, the basic equation is:



Net benefits: The difference between the benefits of the investment and the costs associated with the benefits. So, for example, if spending \$100,000 on a new scrubber system is expected to generate \$150,000 per year in reduced claims, the net benefit would be \$50,000 ($\$150,000 - \$100,000$).

Costs: The total costs needed to generate the benefits from the investment.

Time period: Companies typically want to measure recovery of the investment over a unit of time. Generally speaking, the sooner you can show positive ROI, the stronger your business case will be. In some cases, benefits must be shown during the first year of investment, or even within the same calendar or fiscal year. Other companies use an ROI formula that spreads out the benefits on a weighted average over the lifetime of the investment.

ROI, EHS Programs, and Proposal Building

Make sure you understand the ROI formula your company uses before making a business case for EHS investments based on ROI. Questions to ask:

- Are net benefits calculated before or after taxes and depreciation?
- At what ROI levels does the company generally approve non-EHS investments outside safety?
- How immediate must ROI be?

Impact on the EHS Program

ROI works best when benefits are easy to identify, measure, and manage. The back-end or “trailing” indicators, such as numbers of reportable spills, that EHS coordinators have traditionally used to measure the success of their programs may not work well with ROI models. Thus, using ROI to sell an EHS program might necessitate adopting other “leading” indicators that are more predictive of spills and incidents.

Example: The consumer products giant Procter & Gamble (P&G) is an example of how to use leading indicators to measure the success of an EHS program. P&G identified nine “key elements,” or indicators of success in the EHS realm, including safe practices and effective training sessions, and asked each P&G facility administrator to rate the facility’s effectiveness in each element on a scale of 0 to 20. After four years, all scores were added up and compared to the facility’s injury rates. **Result:** P&G identified that a score of eight or better was a strong indicator of low injury rates.