MAKING THE BUSINESS CASE FOR SAFETY: Health & Safety of Workers Tied to Good Stock Market Performance

A logical argument for investing in workplace health and safety is that companies that create an environment that reinforces safer and healthier lifestyle choices and surrounds workers with a ‘culture of health’ should be more productive and that productivity should drive business performance and be reflected in stock prices. But is this argument actually true and can you prove it to senior management’ A new study published in the Jan. 2016 issue of the Journal of Occupational and Environmental Medicine (JOEM) shows that a healthy and safe workforce correlates with a company’s performance and its ability to provide positive returns to shareholders. For example, over the study’s 13-year period, the hypothetical investment returns for the healthiest and safest companies were significantly higher than average S&P 500 returns’as much as triple in some scenarios. Here’s a look at the study and its findings.

The CHAA Study

In the study, entitled ‘Tracking the Market Performance of Companies that Integrate a Culture of Health and Safety: An Assessment of Corporate Health Achievement Award Applicants,’ the researchers studied the stock market performance of companies that had applied for or received the American College of Occupational and Environmental Medicine’s Corporate Health Achievement Award (CHAA), which annually recognizes the healthiest and safest organizations in North America. (Thus, we’ll refer to this study as the CHAA study.) To be considered for the CHAA, organizations must be engaged in measurable efforts to reduce health and safety risks among their employees.

The authors tracked the stock market performance of 17 CHAA applicants and recipients. Using simulation and past market performance, a theoretical initial $10,000 investment in such companies was followed from 1997 to 2012 under one scenario and from 1999 to 2012 in three scenarios. Because the CHAA is announced each May, they chose to simulate the purchase of stock in those companies that were publicly traded on July 1 of each year.

In addition, the researchers followed the investment fund’s performance using four different portfolios:

1. Purchasing stock in the award winner each year starting with the first recipient;
2. Beginning the investment after five publicly traded recipients were identified so to avoid being overly influenced by the performance of an individual company;
3. Weighting the investment into each award winner on the basis of their final CHAA award winning score; and
4. Cutting both the best and worst performing companies from the portfolio to eliminate potential bias.

The Results

The results of the 13-year study were broken down by portfolio:

Portfolio #1. The first portfolio initially consisted of the first five publicly traded award-winning companies and began on July 1, 1999. Subsequent equities were added as of July 1 after the year in which they were recognized as award winners and were publicly traded. From July 1, 1999, through June 30, 2012, the initial $10,000 investment in this research portfolio grew to $17,871.52, a cumulative return of 78.72%. During the same period, the S&P 500 had a cumulative return of ‘0.77% and a final investment value of $9,923.14. The annualized return for the portfolio was 4.57% versus the S&P 500 annualized return of ‘0.06%.

Portfolio #2. Some award winners scored higher than others. So for Portfolio #2, the researchers decided to test how the hypothetical investment portfolio would do if they weighted the holdings based on their companies’ score in the year when they won. The second portfolio also initially consisted of the first five publicly traded award winning company securities and began on July 1, 1999, with subsequent winners being added as of July 1 after the year in which they won. The portfolio was rebalanced each July 1 by calculating the arithmetic weighted average of the CHAA score when the company was an award winner. During the period July 1, 1999, through June 30, 2012, the initial $10,000 investment in this portfolio grew to $17,569.21, a cumulative return of 75.69%. During the same period, the S&P 500 had a cumulative return of ‘0.77% and a final investment value of $9,923.14. And the annualized return for the portfolio was 4.43% versus the S&P 500 annualized return of ‘0.06%.

Portfolio #3. Portfolio #3 is the most basic portfolio, taking the award winners for each year and tracking their performance. Because there’s no minimum number of holdings, it started in 1997 when the first award was announced. Subsequent winners were added each July 1. From July 1, 1999, through June 30, 2012, the initial $10,000 investment in this portfolio grew to $24,058.29, a cumulative return of 140.58%. During the same period, the S&P 500 had a cumulative return of 53.89% and a final investment value of $15,389.20. In addition, the annualized return for the portfolio was 6.03%

versus the S&P 500 annualized return of 2.92%.

Portfolio #4. When analyzing the stock performance of the CHAA winners, the researchers were concerned about outlier influence and didn't want one holding to deter or overstate performance. So to help alleviate the potential skew of one holding, they deleted the best and worst performers from Portfolio #1 to create Portfolio #4. From July 1, 1999, through June 30, 2012, the initial $10,000 investment grew to $19,404.12, a cumulative return of 94.04% for this revised portfolio. During the same period, the S&P 500 had a cumulative return of '0.77% and a final investment value of $9,923.14. Also, the annualized return for the portfolio was 5.23% versus the S&P 500 annualized return of '0.06%.

***Insider* Says:** The CHAA study is one of three studies featured in a special section of the Jan. 2016 issue of JOEM highlighting the impact OHS programs may have on a company's investment value. The other two studies by the Health Project and the Health Enhancement Research Organization (HERO) also support the finding that financially sound, high-performing companies invest in worker health and safety.

BOTTOM LINE

The results of the CHAA study strongly support the view that focusing on the health and safety of a workforce is simply good business. The research portfolios of publicly traded award-winning companies clearly outperformed the market. Although correlation isn't the same as causation, the results consistently and significantly suggest that companies focusing on the health and safety of their workers are yielding greater value for their investors as well. *Bottom line*: Building healthier workforces may provide a competitive advantage in ways that benefit investors. Safety professionals can use the results of the CHAA study to convince senior management that investing significantly in OHS programs and initiatives is likely to result in superior financial performance in the marketplace.

***Insider* Source**

'Tracking the Market Performance of Companies that Integrate a Culture of Health and Safety: An Assessment of Corporate Health Achievement Award Applicants,' *Journal of Occupational and Environmental Medicine*, Jan. 2016