The Business Case for Safety: Demonstrating Your OHS Program’s Return On Investment (ROI)

In a perfect world, companies would invest in safety because protecting workers is the ‘right thing to do.’ While some of you may be lucky enough to work for companies that operate on the basis of that principle, most OHS managers have to make their case in terms of return on investment (ROI)—that dollars invested in safety improve the company’s financial performance. Since safety doesn’t generate revenue, safety managers must show that it cuts company costs. But saying that ‘safety saves money’ is a clich�. The real challenge for OHS managers is to back up the assertion with substantive economic arguments. The venerable Liberty Mutual Insurance remains the go-to source for such information.

Safety and ROI

Liberty Mutual, a leading provider of workers’ comp insurance, interviewed 200 executives responsible for workers’ comp at their companies’75 from mid-size companies with 100 to 999 workers, and 125 from big companies with over 1,000 workers. A whopping 95% of those executives said that workplace safety has a positive effect on financial performance.

The really juicy stuff: Of this 95%, 61% reported achieving an

ROI of at least $3 for every $1 they invest in safety. Understanding how the executives calculated this ROI provides insight into how your own corporate officers think and enables you to make a stronger case for safety.

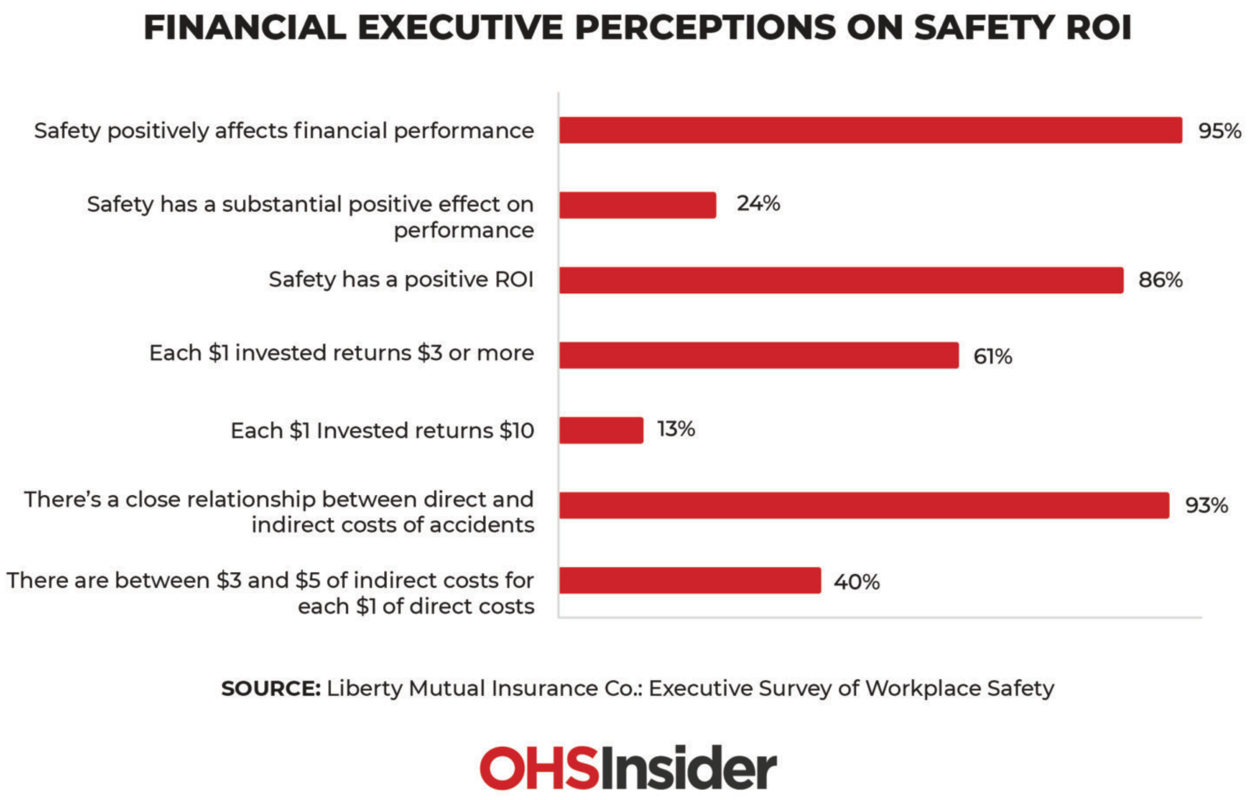
Demonstrating the Economic Value of Safety

When workplace injuries and illnesses occur, a company incurs 2 kinds of costs:

- **Direct Costs** including payments to injured workers, reimbursement of medical bills and other expenditures covered by insurance; and
- **Indirect Costs** including loss of productivity, cost of training replacement workers, damage to the company's reputation, increased future premiums and other losses not covered by insurance.

Direct costs are the obvious thing that companies look at when analyzing safety's ROI. Indirect costs are the hidden costs that tend to get overlooked. But as the Liberty Mutual report suggests, focusing on direct costs underestimates the real savings of injury prevention. Ninety-three percent of the executives Liberty Mutual surveyed say there's a direct relationship between direct and indirect costs. Forty percent report that $1 of direct costs generates between $3 and $5 of indirect costs. Thirteen percent of respondents (and findings from other studies) report that the relationship between indirect and direct costs is as high as10 to 1.

Here are highlights of the survey:



SOURCE: Liberty Mutual Insurance Co.: Executive Survey of Workplace Safety