

Safety Programs and Your Bottom Line

According to the Occupational Safety and Health Administration (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:

- U.S. 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.

In today's business environment, these safety-related costs can be the difference between reporting a profit or a loss. Use these tips to understand how safety programs will directly affect your company's bottom line.

Measuring Safety – The Costs

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.

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.

When it comes to safety programs, defining your goal helps you to determine what costs to track and how complex your tracking system should be.

Since measuring can be time consuming, general cost formulas are available. A Stanford study conducted by Levitt and Samuelson 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 is 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:

1. Direct , or hard costs, which include the following:
 - Safety wages
 - Operational costs

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- Insurance premiums and/or attorney's fees
 - Accidents and incidents
 - Fines and/or penalties
2. Indirect, or soft costs, which go beyond those recorded on paper, such as the following:
- 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 share

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

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.

The Value of Safety

OSHA studies indicate that for every \$1 invested in effective safety programs, you can save \$4 to \$6 as illnesses, injuries and fatalities 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.

Considering the statistics, safety experts believe that there is direct correlation between safety and a company's profit. We are committed to helping you establish a strong safety, health and environmental program that protects both your workers and your bottom line. Contact us today at (516) 466-6007 to learn more about our value-added services.