Making the Business Case for Safety

Meeting Objectives

After this safety training session, employees will:

- Appreciate reasons why safety program costs can be hard to justify
- Understand management’s typical view of safety
- Have a set of tools for making the business case for safety

Suggested Materials to Have on Hand

- Safety records
- Accident, workers' compensation safety program, and other related cost data
- Handout #1: Case Studies from OSHA
- Handout #2: OSHA's Take on the Business Case for Safety

Applicable Regulations

There are no regulations that govern this topic.

Introduction/Overview

One of the toughest jobs of the safety manager and others involved with and concerned about safety is simply justifying its costs to management.

From the safety professional's view, the necessity of supporting safety is obvious, but, as many have learned, it is often not obvious to upper management.

We'll talk about why this is so, and we'll explore some practical steps you can take to make sure safety stays at the forefront of your company's priorities.
Barriers to Safety Performance as a Business Value

It’s helpful to start out with an appreciation of the challenges that safety managers face in justifying their programs and costs. The barriers presented below generally align with the five barriers identified in the American Society of Safety Engineers’ (ASSE) Council on Professional Affairs’ Value of the Safety Professional project.

1. Safety is often viewed as a cost

Safety in general is usually viewed as a cost instead of an investment or benefit. As costs are meant to be reduced, that’s a problem.

2. There’s no common terminology to describe safety performance in financial terms.

Safety people don’t generally talk the financial language of their organizations.

3. It’s tough or impossible to get consistent injury/illness cost data.

Much safety activity is difficult to quantify. There is no standard way for safety managers to convert safety data into a financial format. For example, it’s hard or impossible to get a company’s cost data for worker injuries or compensation claims in a format that is usable for doing any type of cost/benefit analysis of safety initiatives.

4. There is a lack of technical skills to link safety strategies to financial outcomes.

Few people, if any, within a company are familiar with both safety reporting and financial accounting methods, so it’s hard or impossible to coordinate financial and safety performance reporting.

5. Safety measures are not applied properly to the business case.

Safety professionals don’t know how to apply safety measures to the business case. A lost-workday rate, or Days Away, Restricted, or Transferred (DART) rate, isn’t a reliable indicator of future safety performance or worker productivity.

6. There’s competition for dollars.

You’re competing with other activities in the organization for materials, staff, and money.

Business managers want to know future benefits and risk of future loss. They will ask, “What hard evidence exists to support the assertion that workers’ safety and health is good for business?”

Bottom line, it takes some thought and effort to get management to get safety. Here’s the five-step process that will help you make your case for safety.
Five Steps to Make Your Business Case

BLR’s safety editors have identified five steps that you can take to make your business case for safety:

1. Identify business value drivers and barriers to safety as a business value.
2. Identify costs/investments and benefits of safety functions.
3. Link safety functions to value drivers.
5. Follow up.

We’ll take each step in detail, but first, we’ll look at how executives view safety and what some of the barriers are in trying to make a good business case for safety expenditures.

Step 1—Identify the Primary Value Drivers

How does an organization determine the business value of its activities? For management, business value refers to the measurable and hidden assets and qualities that determine the health and well-being of an organization and drive decision-making for all work activities. Something is "value added" in business when its benefit to the organization clearly outweighs the cost of producing the value.

For example, there are traditional tangible values that are routinely measured, such as:

- Profit
- Revenue
- Cash flow
- Productivity

There are also important hidden, or intangible, business values. For example:

- Company reputation,
- Ability to innovate,
- Employee talent,
- Political support, and
- Employee morale.

Unfortunately, there’s no easy way to measure the business value of intangibles in the way that traditional financial values are measured. And, many qualities of safety programs are in this category of intangibles.

Copyright © 2009 Business & Legal Reports, Inc.
Do Some Basic Business Value Research

You'll have to do some research to identify your organization's primary value drivers. Here's what to do.

• Get a copy of your organization's most recent financial report, annual report, or budget, if possible. Find references to worker safety or Safety and see how they are portrayed in relation to the core business values expressed in the document. Look under headings such as "Safety," "Governance," "Sustainability."

• Look at your organization's mission statements and goals, and see how safety fits into those goals.

• Learn the basic terminology your organization uses to identify and express business value.

• Watch others who are successful in your organization at getting resources for their operations and learn the terminology they use to express their value to the organization.

• Consider taking an online course about basic business principles, or get a book such as The 10-Day MBA.

• Identify key people in the organization who understand or work with the financial end of the business and learn from them.

For example, a safety manager of a large construction company in Texas went to her chief financial officer (CFO) with a proposal to create a wellness program for employees. She made her case for healthier employees and increased employee productivity. She was turned down. Then she got a second chance. This time she did some research and showed the CFO that the company could get a discount on its employee health insurance program premium if it instituted a wellness program. Her proposal was approved. Why? On her second try, she spoke the language of the CFO.
Step 2—Identify Investments/ Costs of Safety

Once you know what the organization’s value drivers are, make an inventory showing how safety-related resources are invested at your organization. (It’s helpful to focus on the concept of investment rather than cost.)

Basically, look at your safety programs and activities and find out what they cost the organization.

Use a chart like this one to decide the major categories or activities that can be measured and quantified over time for comparison.

<table>
<thead>
<tr>
<th>Function</th>
<th>Activities</th>
<th>Investment/Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety Compliance Management</td>
<td>Hazard analysis, inspections, reports, incident investigations</td>
<td>Staff time, litigation, production delays</td>
</tr>
<tr>
<td>Training</td>
<td>Scheduling, program development, training sessions, recordkeeping</td>
<td>Staff time, consultant fees, training materials purchase</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>Reporting, recordkeeping, training replacements, arranging light-duty assignments</td>
<td>Premiums, staff time, lost workdays</td>
</tr>
<tr>
<td>Protective Equipment</td>
<td>Hazard analysis, choosing equipment, maintenance, replacement</td>
<td>Staff time, equipment</td>
</tr>
</tbody>
</table>

The point is to group your safety activities into categories where costs can be measured and you can clearly see how your resources are used.

Now you want to translate this information into financial numbers.
Activity-Based Costing

Activity-based costing is one way to display costs. It helps to show costs related to actions rather than expense categories. Below is a sample of a budget forecast for updating the electrical system for an industrial sewage treatment facility. "BOM" is bill of materials, or a list of all the components of a finished product.

The following table contrasts a general ledger and ABC approach to showing expenses for each major activity related to a project, product, or service.

<table>
<thead>
<tr>
<th>General Ledger</th>
<th>ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>Create BOMs</td>
</tr>
<tr>
<td>Equipment</td>
<td>Maintain BOMs</td>
</tr>
<tr>
<td>Travel Expense</td>
<td>Create routings</td>
</tr>
<tr>
<td>Supplies</td>
<td>Maintain routings</td>
</tr>
<tr>
<td>Use and occupancy</td>
<td>Process special orders</td>
</tr>
<tr>
<td>Total</td>
<td>Improve processes</td>
</tr>
<tr>
<td></td>
<td>Study capabilities</td>
</tr>
<tr>
<td></td>
<td>Design tooling</td>
</tr>
<tr>
<td></td>
<td>Train employees</td>
</tr>
<tr>
<td></td>
<td>Admin</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
</tbody>
</table>

Calculators

Several agencies have set up calculators to help calculate safety costs.

EPA Total Cost Accounting

The Environmental Protection Agency funded a free Web-based Total Cost Accounting program developed by the Texas Commission on Environmental Quality and the TX Engineering and Extension Service (TEEX). It lets you type your costs into the calculator and run various total-cost scenarios.

The URL for the website is: teexcit.tamu.edu/tca

Incident Costs from OSHA

OSHA has an online calculator that allows you to enter some very basic financial information about your company and a specific type of incident, say, electric shock. You can enter your company’s workers’ compensation figures, if known, or use OSHA’s average industry costs for the injury. It displays an estimate of the impact of workplace injuries on your company’s profit.

The URL for the website is:

www.osha.gov/dcp/smallbusiness/safetypays/index.html
OSHA Estimate of Annual Costs of Accidents

This is another OSHA website you can use to estimate the annual cost of accidents at your workplace on company profits and sales.

The URL for the website is:

www.osha.gov/SLTC/etools/safetyhealth/mod1_estimating_costs.html

Michigan Worker’s Compensation Cost Estimator

The Michigan Economic Development Corporation has developed an excellent online calculator to help you estimate workers’ compensation costs for various injuries within a specific industry.

Step 3—Link Safety Functions to Value Drivers

Now it’s time to link your program activities to your company’s value drivers. This step helps you consciously identify the links between safety functions and the core business values of the organization.

(The example is for illustration only and does not represent any specific organization.)

<table>
<thead>
<tr>
<th>Business Value</th>
<th>Safety Function</th>
<th>Profit</th>
<th>Productivity</th>
<th>Compliance Risk</th>
<th>Reputation/Image</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Training</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Safety Committee</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Inspections</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recordkeeping</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Incentive program</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
Next, lay out a strategy for measuring the performance of safety functions as business value outcomes. Positive “value outcomes” are the benefits of safety programs.

<table>
<thead>
<tr>
<th>Safety Function</th>
<th>Business Value Objective</th>
<th>Measure of Performance</th>
<th>Business Value Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>• Increase productivity • Reduce compliance risk</td>
<td>• Productivity rate</td>
<td>• % increase in productivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Noncompliance incident rate</td>
<td>• % incident reduction/year</td>
</tr>
<tr>
<td>Compliance/Enforcement</td>
<td>• Increase productivity • Reduce compliance risk • Cost containment</td>
<td>• Injuries/Work hours</td>
<td>• $ or % reduction in lost workdays</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Rate of near misses</td>
<td>• % reduction in near misses</td>
</tr>
<tr>
<td>Personal Protective Equipment</td>
<td>• Increase productivity • Reduce compliance risk • Cost containment</td>
<td>• % of employees wearing PPE during incident</td>
<td>• Cost of injury with and without PPE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• % of employees injured during incident</td>
<td>• Severity of injury with and without PPE</td>
</tr>
</tbody>
</table>

**Step 4—Communicate Results: Make the Business Case**

Now it's time to communicate your results to management. You'll want to find a way to present your safety data that reflects what you found in the first steps about the organization's goals, how management wants information, and how they are likely to evaluate it.

Keep in mind the following tips:

- Speak the language/format of management.
- Compare your case to doing nothing.
- Document your assertions, assumptions.
- Address risk from management's perspective—show how safety can achieve business objectives at lowest cost.
- Be strategic—make targeted recommendations as to how company operations should react to the trends you are seeing.
- Show future investments and benefits whenever possible.
If you don't have impressive data of your own, here's some from an ASSE return on investment (ROI) study:

- A safety, health, and environmental (SH&E) director for an environmental services company in Massachusetts saved $8 for each dollar spent on a quality SH&E program.

- A West Virginia coal mining company reduced its workers' compensation rate to $1.28 per $100 payroll as opposed to its competitor's rate of $13.78.

- A fall protection program implementation reduced one employer's accident costs by 96 percent—from $4.25 to $0.18 per person-hour.

- Implementation of an improved safety and health program reduced a large service company's workers' compensation costs by $2.4 million over a 2-year period.

- Implementation of an Occupational Safety and Health Administration (OSHA) safety program reduced losses at a forklift manufacturing operation from $70,000 to $7,000 per year.

Step 5—Follow-Up

OK, you've made your pitch and have management's attention. Don't stop there. Follow-up is key to getting upper management to accept your case in the long term. Try the following:

- Update upper management on a regular basis using terminology business managers understand, and in a format they prefer—Email, intranet, etc.

- Don't overwhelm them with data, and make sure the information is fresh.

- Stay consistent with the measures—if you change an indicator or way of measuring performance, explain what and why the change was made. This goes to the credibility and reliability of your information.

- Management often values information about nonfinancial matters, such as changes in employee morale or the organization’s reputation. You may have an opportunity to become a key source of information about the nonfinancial health of the organization.
Wrap-Up

Safety functions often tend to be undervalued due to:

- Barriers between safety performance and business values
- Lack of standard measures of performance that are meaningful to management

Five steps can help managers make their business case for safety:

1. Identify value drivers.
2. Identify costs/investments and benefits of safety.
3. Link safety functions to value drivers.
4. Communicate results in “biz-speak”.
5. Follow up.

Suggested Discussion Questions

1. What information do we collect that might help us make the business case for safety?
2. What particular efforts or programs can we point to where we can show clear savings?
3. What programs can we propose that offer clear possibilities for significant savings that we will be able to demonstrate to management?

Outside Resources

OSHA's case studies provide concrete examples of safety savings.

**Miller Park Stadium**
In a tragic crane collapse, three construction workers were killed, several others injured. The destruction was extensive, necessitating over $100 million in repairs and delaying the opening for a year.
A Milwaukee County jury awarded $94 million in punitive damages and $5.25 million in compensatory damages to the families of three ironworkers killed in the accident.
In the early phases, the Miller Park project was at 27% of premium dollars for injuries at the site. As the need to accelerate the production to make the opening day deadline, a dispute over site safety arose and the then safety director left. In the next few months there were serious falls, dropped loads, and the death of three workers.

**Paul Brown Stadium**
In contrast, the Paul Brown Stadium was built with OSHA Partnership and Labor/Management Partnership.
There was a significant decrease in expected injuries: a 0.95 lost-time rate vs. 4.0 average rate for construction; $4.6 million less in workers' comp and liability cost than would be expected. No fatalities! Only one fall injury!
This partnership has demonstrated the cooperative effort that can exist between labor unions, construction management, state consultation, insurance carriers/brokers, and OSHA.

**Illinois Nursing Home**
An Illinois nursing home spent $24,000 for lifting devices and increased their enforcement of lifting rules. The year before the implemented, the home had 76 claims and $115K paid out in comp. The year after implementing enforcement, the facility had only 4 claims and $4K paid out in workers' compensation.
OSHA's Take on the Business Case for Safety

OSHA wants to help managers responsible for safety. The agency points out that a good safety program is essential for:

- Providing a safe workplace, which is key to meeting business objectives
- Protecting reputation
- Attracting and retaining high-potential employees

Management Commitment Means ...
- Valuing and caring for human resources
- Demonstrating a visible commitment with continuous involvement
- Setting high expectations and accountability for safety
- Motivating proper behaviors through leadership
- Providing resources to affect change
- Encouraging employee involvement

Employee Involvement Means ...
- Shared ownership of and commitment to the program
- Active support of the program
- Accountability for one’s personal safety and that of his or her co-workers

Ways to Involve Employees:
- Commit to regular communication with employees on the subject of safety, risk, and hazards.
- Provide access to information.
- Provide ways to participate in the program, e.g., worksite self inspections, safety and health annual evaluation process, incident investigation.
- Provide ways to report hazards, injuries, and make recommendations to control hazards.

Implementing Safety Excellence:
- Assume all incidents are preventable.
- Assume all exposures/risks can be controlled.
- Hold management responsible and accountable for preventing injuries
- Involve employees.
- Make working safely a condition of employment.
- Train employees to work safely.
- Promote off-the-job safety.
- Audit safety.
- Design for safety—designing safety into a process is cheaper than retrofitting for safety later.