

Boosting Return on Investment for

Health, Safety and Environment (HSE) Programs

Reduce Incident Costs by Up to 96%



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OVERVIEW: HEALTH, SAFETY AND ENVIRONMENT (HSE) PROGRAMS

Health, Safety and Environment (HSE) training programs employ a systematic approach to addressing aspects of workplace safety that affect the health and well-being of employees.¹ By applying principles from engineering, education, hygiene, and management, among others, these programs are vital to the prevention of harm to people, property, and the environment.² Furthermore, it is said that safety at work is a basic responsibility for any organization due to the societal and financial burdens incurred as a result of work-related illness, injury and death,³ as such, HSE programs have been identified as a core value, owing to the benefits they offer to a host of stakeholders, including employers, employees and their families, customers, and communities,⁴ and the wide-reaching impacts they deliver for these entities.⁵ Due to the wealth of influence wielded by HSE programs, and their residual effect on a company's bottom line, it is recommended that HSE become and remain a principal business strategy for organizational success.⁵

Specifically, companies that implement an effective safety and health process can expect a return of \$4 to \$6 for every \$1 invested in these programs.

THE VALUE INHERENT IN HSE PROGRAMS

It is well-established that investments in HSE programs yield great dividends for companies—chief among these are direct, economic benefits attributed to an interplay of factors. However, while cost-saving benefits may signify the primary motivation behind the implementation of HSE management programs, there are several other rewards that can be unveiled from an organizational focus on workplace safety and health. Although somewhat difficult to quantify, the following highlighted benefits of a sound investment in HSE programs can be cited based on anecdotal evidence and emerging research:⁶



AN OVERALL REDUCTION IN ECONOMIC BURDEN

A financial return on investment represents one of the most striking motivators for the establishment of HSE programs. Certainly, a reduction in economic burden is often the end-result (and goal) of other highlighted benefits, and employers that invest in workplace safety and health can expect to enjoy cost-saving benefits from a range of contributors, including lower workers' compensation costs, medical expenses, administrative fees, in addition to the avoidance of fines resulting from OSHA penalties.⁷ These factors have been shown to have a synergistic effect in improving a company's bottom line.⁶ Specifically, companies that implement an effective safety and health process can expect a return of \$4 to \$6 for every \$1 invested in these programs. Investors are also tuned in to the conversation, and are increasingly using workplace safety and health measures to screen out underperforming stocks, and are enjoying stronger returns from these actions. As specific examples of the cost-saving benefits of HSE programs, one needs only to consider the following statistics:⁸

- An environmental services company in Massachusetts saved \$8 for each dollar spent on a quality HSE program.
- A West Virginia coal mining company reduced its workers' compensation rate of \$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.
- An improved HSE program reduced a company's workers' compensation costs by \$2.4 million over a two-year period.
- With an increased focus on safety, aluminum manufacturer Alcoa saw its earnings increase from \$0.20 a share to \$1.41 in five years and a 15 percent increase in sales each year during the same period.

Ultimately, organizations that provide safe and healthy workplace environments for their employees are able to reap the benefits of these prevention efforts through cost-savings and increased profit margins.⁸



REDUCTION IN FATALITIES, INJURIES, AND ILLNESSES

Crucial to ensuring financial returns of investments in HSE programs, are reductions in fatalities, injuries, and illnesses. These incidents are burdensome in both financial and human terms,⁸ resulting in an estimated cost to society of \$200 billion in 2012.¹¹ Similarly, it is estimated that businesses spend up to \$170 billion a year on costs associated with occupational injuries and illnesses. This is particularly significant, as these expenditures are derived from company profits. Further compounding the issue, are increases in the average cost of workers' compensation insurance—which have risen by 50 percent in the last three years—and a near doubling of the average medical cost per claim over the past decade.⁸ As a result, in 2010 alone, employers paid close to \$1 billion per week for direct workers' compensation costs for the most disabling injuries and illnesses. It is thus evident that a dedication to safety and health is key to curbing these adverse incidents. OSHA's review of literature on the effectiveness of injury and illness programs estimates that injuries can be reduced by 15 to 35 percent with these initiatives in place. These reductions bring an immediate return on investment through increased profitability, as lower injury rates lead to less non-value added expenses and loss and therefore, higher profit margins.⁹ Case in point: each prevented lost-time injury or illness saves \$37,000, while each avoided occupational fatality saves \$1,390,000 for organizations. Overall, fewer workplace accidents yield societal benefits resulting from reduced pressure on systems and personnel charged with reconciling the consequences of these events.⁶



IMPROVED EMPLOYEE MORALE AND PRODUCTIVITY

Despite the promise of cost savings from HSE programs, it is cautioned that employers base decisions on what keeps workers safe, and not solely on financial motivators.¹¹ Specifically, an emphasis should be placed on the value of human capital,¹¹ as this drives every aspect of an organization's operations—from technology and product design to distribution networks and service delivery. Furthermore, current research shows that health, work behavior, and the value of human capital are inextricably linked. What this indicates is that employee health status directly influences employee work behavior, work attendance, and on-the-job performance¹⁷—it is predicted that lost productivity from injuries and illnesses can cost companies up to \$60 billion each year.¹² In short, a safe and healthy workplace attracts and retains quality employees, yielding the following benefits: fewer injuries, reduced absenteeism, lower turnover rates, the production of higher-quality products and services, and increased employee morale.^{8,19} As more concrete evidence of the impact of HSE programs on employee productivity:

- A Fortune 500 company was able to increase its productivity by 13 percent with a quality safety and health program in place.¹²
- A small, 50-person plant decreased faulty product and saved more than \$265,000 in the process with an effective HSE program.¹²
- A New Holland Ford plant noted a 13 percent increase in productivity and a 16 percent decrease in scrapped product due to an increased focus on safety and health.⁵

At the root of highlighted benefits is the presence of more satisfied, productive, and loyal employees¹² who, by extension, are healthier, more likely to earn a steady income, and be more satisfied in their personal relationships.



A BOOST TO ORGANIZATIONAL REPUTATION

Workplaces with active safety and health leadership are often rated “better places to work”¹² and are rewarded with a positive brand image.⁸ This is particularly noteworthy because a company’s reputation is of significant value in generating a favorable return on investment⁶ and enhancing corporate reputations. For example, a company or organization will benefit from a favorable reputation by becoming the first choice of customers, investors, suppliers, and employees;⁶ with respect to customers, this sort of influence creates a degree of brand equity that enhances loyalty, encourages repeat sales, and grows revenues⁶ while boosting the competitive capacity of the enterprise. In the long run, this increases the potential to retain clients and attract prospective customers. Additionally, organizational reputation is especially critical for mid-sized and smaller business that are dependent on local, state, or government bids, as their safety records are factored into these decisions.¹⁴ Overall, a safe and healthy workplace is an asset to a community,¹⁸ demonstrating a company’s dedication to social responsibility, while protecting and enhancing brand image and value.²²



INCREASED COMPLIANCE WITH FEDERAL AND STATE REGULATIONS

In recent years, encouraging a commitment to safety and health program management has become a priority for federal and state agencies involved with safety regulation and enforcement;⁶ therefore, a focus on workplace health and safety affords companies the opportunity to be compliant with set federal and state regulations. This is especially relevant because penalties for safety and health violations have been increasing in dollar amount, while violations resulting in the death or serious injury of a worker may lead to prosecutions at the state level, or referrals to the U.S. Department of Justice.⁶ In an effort to back up this commitment to occupational safety and health, a number of federal programs, business strategies, and management system standards have been established to help organizations incorporate effective HSE programs into their business practices.²⁰ For instance, OSHA's effort to encourage use of safety and health management programs is exemplified through its Voluntary Protection Program (VPP) initiative⁶ which has been credited with increasing productivity and cost savings and reducing lost-time injuries.^{11,12} Similarly, the Administration's Safety and Health Achievement Recognition Program (SHARP) is recognized for reducing lost workday incidence rates, insurance claims, and workers' compensation costs.^{13,19}

At the state level, many safety interventions have gone beyond federal OSHA requirements, with encouraging results: a study of manufacturers in 13 states found that mandatory regulations for injury and illness programs or health and safety committee requirements, were effective in reducing injury and illness incidence rates.¹⁶



BEST PRACTICES FOR IMPLEMENTING EFFECTIVE HSE PROGRAMS: A FOCUS ON TRAINING

While many organizations have learned that investing in HSE practices is one of the best ways to protect workers and improve bottom line results, others have yet to realize HSE's full potential. For a HSE program to be truly effective, it takes strong and visible commitment from senior management and an emphasis on demonstrative value of such programs.¹⁹ Key to attaining these objectives, is a focus on training for the prevention, reduction, and elimination of employee injuries, illnesses and fatalities. Many standards promulgated by OSHA explicitly require employers to train their workers in the safety and health aspects of their jobs; these requirements reflect OSHA's belief that training is an essential part of every employer's safety and health program. Study findings mirror these conclusions, as they show that training can help companies attain objectives such as increased hazard awareness among at-risk worker groups, knowledge and adoption of safe work practices, and other positive actions that can reduce risk and improve workplace safety, thus contributing to cost savings of up to \$170 billion dollars a year for companies.²³

As previously mentioned, training is only one component of an employer's safety and health program, as the involvement and commitment of management is also integral to their success.²³ Research indicates that successful training outcomes appear greatly influenced by management's role in, and support of, safety training and policies which favor opportunities for applying the knowledge gained from training, or reinforcing learned behaviors through incentives or other means to produce optimum results.²⁵

While it is often difficult to tangibly show the return on investment for HSE programs, numerous statistics are available to show the cost of workplace accidents, both in people and property—these data are critical in showing the need for effective management and training to ensure occupational safety and health.²⁶

SOURCES ¹ naem.org/?page=What_is_EHS | ² asse.org/assets/1/7/ASSE_she_career_broch_FNL.pdf | ³ csrconnected.com.au/2015/03/csr-frameworks-to-boost-safety-at-work/ | ⁴ safetymanagementeducation.com/ | ⁵ asse.org/professionalaaffairs/action/return-on-investment-for-safety/ | ⁶ asse.org/bosc-article-6/ | ⁷ osha.gov/dcsp/products/topics/businesscase/benefits.html | ⁸ prnewswire.com/news-releases/investment-in-workplace-safety-triggers-positive-bottom-line-results-for-businesses-economy-safety-official-notes-72177557.html | ⁹ safetyresourcegroup.com/info/return-on-investment.html | ¹⁰ nsc.org/JSEWorkplaceDocuments/Journey-to-Safety-Excellence-Safety-Business-Case-Executives.pdf | ¹¹ safetyandhealthmagazine.com/articles/10414-the-roi-of-safety | ¹² osha.gov/Publications/safety-health-addvalue.html | ¹³ osha.gov/dcsp/products/topics/businesscase/ | ¹⁴ nsc.org/JSEWorkplaceDocuments/Journey-to-Safety-Excellence-Safety-Business-Case-Executives.pdf | ¹⁵ smallbusiness.chron.com/return-investment-employee-safety-programs-47715.html | ¹⁶ nsc.org/JSEWorkplaceDocuments/Journey-to-Safety-Excellence-Safety-Business-Case-Executives.pdf | ¹⁷ shrm.org/about/foundation/products/documents/6-11%20promoting%20well%20being%20epg-%20final.pdf | ¹⁸ safetyworksmaine.com/safe_workplace/safety_pays.html | ¹⁹ asse.org/assets/1/7/BusinessofSafetyArticle.doc | ²⁰ dol.govt.nz/publications/research/good-sense/summary.asp | ²¹ osha.europa.eu/en/publications/factsheets/77 | ²² dol.gov/opa/media/press/osh/osh20100538.htm | ²³ aiha.org/LocalSections/html/Metro%20NY/BeyondClassroom.pdf | ²⁴ osha.gov/Publications/2254.html | ²⁵ cdc.gov/niosh/docs/98-145/pdfs/98-145.pdf | ²⁶ ohsonline.com/Articles/2003/06/Evaluating-the-Effectiveness-of-Safety-Training.aspx



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