Proving the ROI of Safety

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 like that, most safety 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 cliché. The real challenge for safety managers is to back up the assertion with substantive economic arguments. There’s a 2001 report from Liberty Mutual Insurance that can help you do that.

Safety and ROI

Liberty Mutual, the nation’s leading provider of workers’ compensation insurance, interviewed 200 executives responsible for workers’ compensation at their companies—75 from mid-size companies with100 to 999 workers, and 125 from big companies with over 1,000 workers. A whopping 95 percent of these executives said that workplace safety has a positive effect on financial performance.

The really juicy stuff: of this 95%, 61% reported that they get an ROI of at least 3 dollars for every dollar they invest in safety. Understanding how the executives calculated this ROI should help you understand how your own corporate officers think and thus enable 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: This includes payments to injured workers, reimbursement of medical bills and other expenditures covered by insurance.

Indirect Costs: This includes 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 ROI on safety. 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:

- Safety positively affects financial performance: 95%
- Safety has a substantial positive effect on performance: 24%
- Safety has a positive ROI: 86%
- Each $1 invested returns $3 or more: 61%
- Each $1 invested returns $10: 13%
- There's a close relationship between direct and indirect costs of accidents: 93%
- There are between $3 and $5 of indirect costs for each $1 of direct costs: 40%

Deciding Which Safety Initiatives Deliver the Most ROI

There's another important finding of the Liberty Mutual report: Most business executives, even the ones who understand the economic value of safety, don't understand how best to invest their safety-related resources.

Accidents: The Gap Between Perception and Reality

In addition to asking for perceptions about ROI, Liberty Mutual asked business executives what they thought were the leading causes of workplace accidents and compared the responses to an actual ranking of accident causes based on the direct costs to companies in 1998. *The result*: The report found a big gap between business executives' perceptions and reality as far as the cause of accidents is concerned.

For example, executives listed repetitive motion as the most important cause of accidents and said they planned to focus most of their safety resources in preventing repetitive motion accidents. In reality, however, repetitive motion was only sixth on the list of actual leading causes of accidents, generating $2.3 billion in direct costs to companies in 1998, or less than 25 percent of the $9.8 billion in direct costs generated by the leading accident cause—overexertion. We've listed all of the numbers at right so you can see the disconnect between perception and reality.

What It Means

Showing that safety has a positive ROI for other companies can help you get your executives to open their wallets and invest in safety. But that's only half the battle. It's incumbent upon safety directors to see to it that the dollars invested generate a positive ROI *for your company*. As the Liberty Mutual report shows, the business executives can't necessarily be relied on to make the most prudent investments in the safety realm. They need your help identifying the company's needs and directing resources to where they'll do the most good.

What Execs *Thought* Were Leading Accident Causes (in order listed)	**What Actually *Were* Leading Accident Causes (in order listed)**
Repetitive motion	Overexertion ($9.8 billion)
Overexertion	Falls same level ($4.4 billion)
Highway accidents	Bodily reaction ($3.6 billion)
Bodily reaction	Falls to lower level ($3.6 billion)
Falls to lower level	Struck by object ($3.4 billion)
Getting caught or compressed in equipment	Repetitive motion ($2.3 billion)
Falls to same level	Highway accident ($2.1 billion)

Struck by object	Being struck against an object ($1.9 billion)
Contact with temperature extremes	Getting caught or compressed in equipment ($1.6 billion)
Being struck against an object	Contact with temperature extremes ($.3 billion)

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