



IOE HELPING EMPLOYERS

MAKE THE BUSINESS CASE FOR INVESTING IN
OCCUPATIONAL SAFETY AND HEALTH (OSH)



INTERNATIONAL ORGANISATION OF EMPLOYERS

THE CHALLENGES IN PRESENTING THE BUSINESS CASE

Preventing an event that hasn't happened

Metrics for judging OSH performance have traditionally been negative values – the number of accidents, episodes of ill health or incidents that cause damage and disruption to an organisation. It is impossible to present evidence about an event that has not happened. Providing convincing figures on what investments are necessary to prevent events that haven't happened or may not happen, to those responsible for the real time allocation of scarce resources, is a hard task.

At the individual enterprise level accidents are rare events

However shocking the statistics - and OSH statistics are usually presented to shock – the analysis points to the fact that although there are many tragic, adverse OSH events, most workplaces do not have accidents. So most enterprises have little idea of the likelihood of an accident and no experience of the consequences. Those enterprises that have had accidents are only too well aware of the effect on individuals, colleagues, management, time, production and morale. When they start to put monetary values to these items it becomes only too obvious that the costs associated with poor OSH performance are high.

Wise after the event

To foresee how accidents can happen is a complex process but after an accident has happened it is usually very easy to identify simple steps and factors that could have been applied to prevent the accident. Therefore, in retrospect, even when it is known that an accident is usually the culmination of a chain of events, it always seems that preventing an accident is a relatively low cost – a matter of better supervision here, more training there, better equipment, more information. But to prevent accidents, these systems have to be maintained all the time and that is an ongoing cost, whereas the conditions for an accidents to happen only have to involve a single failure or an alignment of failures.

THE BUSINESS VIEWS ON OSH

The concept of an accident is not universally shared

There are considerable cultural differences about accidents, and as knowledge of the causes of harm and diseases expands, so do the views on responsibility and accountability for prevention. The fact that work-related accidents and illhealth are often associated with blame and compensation has meant that legal variations, definitions and remedies have added a further layer of complexity. Even though jurisdictions have defined accidents, incidents and episodes of illhealth in respect of reportability and access to compensation, there are wide variations in interpretation that can add to the confusion.

The business views at the ends of the spectrum

Managing OSH is seen by many businesses as complying with the requirements of occupational safety and health law **imposed** by the country. They recognise a link between OSH and accidents but they view workplace accidents as 'Divine Acts' that cannot be prevented or are the result of employee carelessness and lack of attention. These businesses see complying with OSH law as:

- Costly, so inevitably undermining profitability. It makes work less efficient, imposes administrative burdens and bureaucratic requirements that divert management attention from running the business.

Other companies see an accident at work as an event that injures team members, disrupts production, affects families and undermines workforce moral. They view compliance with sensible risk-based OSH law as:

- a proactive approach to good business risk management, that can maintain efficient working, secure employee morale and motivation, increase productivity and enhance the profitability of the enterprise.

MANAGING OSH TO PRESERVE BUSINESS PROFITS AND REPUTATION

Put the costs of investing in OSH in perspective.

Whatever the cultural, technical and legal niceties, or the motivation for managing OSH; global communications and publicity means that business profitability, reputations, brands, products and trademarks can be undermined or irretrievably lost by association with adverse events such as harm to people or the environment.

MANAGING OSH IS MANAGING A BUSINESS RISK

THE ECONOMIC CASE FOR MANAGING OSH

The basic objectives for managing OSH are to:

- Minimise absence from work by preventing harm to people from work related activities.
- Minimise incidents and accidents at the workplace that interrupt processes and production.

If people are not at work or equipment, processes and systems are not operating then you can't provide services or products and you can't run your business. Managing OSH is fundamentally about minimizing these risks.

ECONOMIC JUSTIFICATION USING COST BENEFIT ANALYSIS



The financial case to justify an investment in OSH provisions can be reduced to a cost benefit analysis, just like the cost benefit analysis for any investment.

MANAGING OSH RISKS

COST BENEFIT ANALYSIS

COST OF INVESTING VS THE RISKS FROM NOT INVESTING

For example the decision to invest in a major piece of new machinery equipped to the latest safety and health standards will involve investigating the lost opportunity cost of not investing in other projects, the cost of capital for the purchase, the lost time while the equipment is installed, the cost of training the staff to operate it, the cost of employing or contracting specialists to ensure it runs at optimal efficiency and the cost of redeploying or severance pay for those staff who may no longer be needed. This will be compared with the improvements that the investment is likely to bring - increased levels of production, reduced manning levels, the ability to expand the range of products offered and, ultimately, greater market share and greater profitability. The investment costs and the likely benefits will be presented and compared in monetary terms, taking into account that costs are made in the present and benefits gained in the future. The length of time necessary to recoup the benefit will be considered in terms of the balance of benefits likely to be gained and the company investment cycle and, if, satisfactory, the investment will proceed.

Of course this sort of analysis takes place in the real world of the company situation at the time the analysis is made. The 'nothing versus something' scenario is very different from the 'some versus more' scenario. A company may be replacing machinery that is breaking down or has already been written off, in which case the decision is easy. Or there may be a huge order coming in from an important customer that can only be satisfied if a new machine with the needed capacity is installed quickly. Most companies have their own template of costs and benefits that they use for investment decision-making but each case has to be considered individually.

COST BENEFIT ANALYSIS FOR OSH

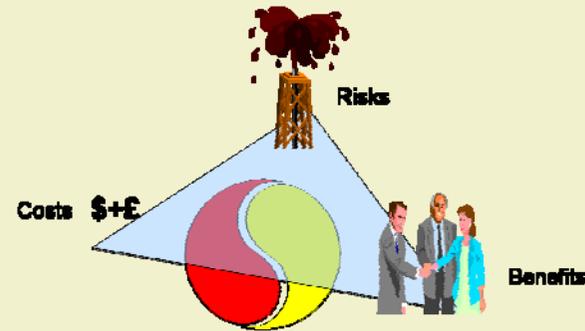
Similarly if you do a cost/benefit analysis for investment in OSH, it relies on where you are on the curve of experience. If you have had an accident and had to devote management time and effort to deal with the disruption, inspectors' visits, prosecutions, fines, civil cases and compensation claims, you will have a different perspective on the costs and benefits from an investment in OSH provisions, than a company that has not had such an experience. Most companies, particularly SME's, do not have accidents, visits from inspectors, prosecutions or compensation claims, so it is more difficult to use the costs, related to these threats, to persuade them of the business case for OSH.

Some arguments made to undermine the case for investments in OSH are that the addition of a guard on a machine slows down the production or the wearing of protective clothing hampers the workers. This can often be the case, but if so, is usually because the guard or protective equipment is badly designed and is regarded as a bolt-on to satisfy the law, rather than something that is integrated in the efficient design of the process at the outset.

But the case for having and maintaining, for example, safe electrical equipment, pressure vessels, process equipment for chemicals hardly has to be made because the consequences of not doing so are obviously catastrophic and self evidently costly in terms of loss of life, loss of profit, business continuity and reputation.

COST BENEFIT RISK ANALYSIS

ECONOMIC JUSTIFICATION USING COST/BENEFIT/RISK ANALYSIS



There are many different analytical techniques for comparing costs and benefits of making investments in OSH provisions e.g. decision trees, fault tree analysis etc. Using a cost/benefit/risk/analysis methodology to justify expenditure on OSH is helpful as it provides a sense of priority for the investment of funds for competing projects. This is much more realistic for business, where there are always more calls for spending money than there are sources of money. Sensible, flexible, risk-based OSH law allows you to justify putting investment into projects that have high risk rather than those that are low risk. High risk situations are more likely to cause more problems if things go wrong.

It is important to see OSH as risk management and modern OSH law is based on this. In low risk premises where it is most unlikely to have an accident or work-related ill health, it is hard to make the case for special investment in OSH and not doing so can be justified, provided the work has genuinely and properly been assessed as low risk.

If you have high or higher risks arising from work and do nothing, then by definition sooner or later there will be an incident, accident or injury involving production loss and possibly employee injury and then the costs of not taking action will become more obvious.

MANAGING OSH RISKS

THE POTENTIAL COSTS OF AN OSH MANAGEMENT FAILURE

Such costs can be

DIRECT COSTS

- Loss of production and product
- Cost of replacement or repair of equipment or workplace
- Penalty for failure to satisfy contract delivery schedules
- First aid, healthcare, medical and rehabilitation costs for those directly injured
- Healthcare and rehabilitation costs of other affected by incident
- Cost of replacement staff – including training
- Legal costs and fines
- Insurance and compensation costs depending on the national systems
- Renegotiation of insurance provision and premia

INDIRECT COSTS

- Managerial time to investigate
- Threat to business reputation and brand name
- Loss of future contracts / custom
- Lower motivation and morale of other employees
- Increased absenteeism
- Higher staff turnover

MANAGING OSH FOR BUSINESS REPUTATION

EXTERNAL REPUTATION

In the tough world of business competitiveness, it is essential to maintain and enhance business reputation and influence and in the global marketplace, a basic requirement, is to not harm people or degrade the environment. This is part of the Corporate Social Responsibility (CSR) agenda influencing many organisations. CSR is an evolution in the approach towards sustainable development: while the 1992 Rio Earth Summit focused on environmental management, the UN Millennium Development Goals and the 2002 World Summit on Sustainable Development (WSSD) focused on a broader set of issues, including poverty reduction and social development.

The scrutiny of all aspects of business performance is not just a matter for enforcers but is more intensively done by investors, NGOs, society, and, particularly business competitors. For any company, OSH measures, such as accident and injury rates and work-related absence, are the most visible and concrete corporate measures of CSR. At times when trust in business has been undermined it is essential to rebuild trust by demonstrating responsible performance in all business arenas.

These moves have stimulated growth in organizations publishing indices and benchmarks that monitor and compare corporate performance. They use the information to bring good and poor corporate performance to the attention of many and the investment community, in particular. A poor rating in these indices can affect a company's ability to attract investment capital or even the cost of capital itself.

The reputation of multinationals and their ability to influence governments and others, who are significant providers of contracts, depend on satisfactorily passing this scrutiny. They have to have more transparent means of showing that their reputation is justified not only by their own good performance but by the performance throughout their supply chain.

Businesses of any size but particularly SMEs will not get contracts from those who have a high profile reputation to protect unless they can demonstrate high standards of performance and ethics in all aspects of business, particularly the highly visible OSH metrics. Managing and investing in OSH is the price of being in the supply chain of businesses with a reputation to protect.

MANAGING OSH RISKS

ENTERPRISES GETTING THE BEST FROM EMPLOYEES

MOTIVATING AND INSPIRING EMPLOYEES

Many employers are convinced that to maintain their competitive advantage they need their employees not just to be present and working efficiently within the company systems but to be high performing, resilient, energetic individuals coming up with innovative ideas and continuous improvement.

The focus has moved away from merely complying with OSH standards, to integrating a broader agenda of efficiency and wellbeing into business systems, to develop inspired employees to achieve improved productivity for the delivery of greater profits and economic growth. Companies have begun to appreciate the link between OSH and wellbeing interventions and eventual increased profitability so that OSH management has moved to the promotion of positive plans for enhancing personal performance and wellbeing via a virtuous circle.

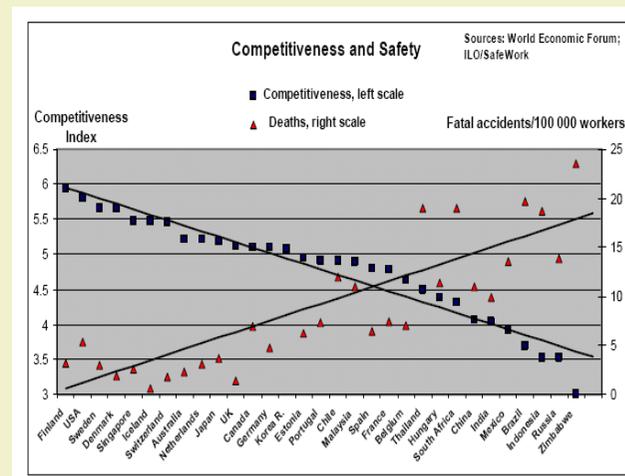


MANAGING OSH RISKS

NATIONAL CULTURES AND PERFORMANCE

Much international work has been done on the links between health and wellbeing at a workplace and how human performance feeds directly to productivity and thus profit. Employers are paying more attention to the less tangible aspects of OSH such as absence management, wellness and fitness programmes, awareness of substance abuse, stress management, employee assistance programmes and building employee resilience which they believe can play a key role in creating the right environment for productivity improvements. In most countries this involves not just labour departments but also public and environmental health departments providing coordinated messages and action at national level.

The link between good OSH programmes, systems and approaches and increased productivity has been measured not only on an enterprise basis but also in terms of national competitiveness. The graph below shows a correlation between the rate of fatalities and a country's competitiveness rankings.



It seeks to attribute the link to the recognition of a preventative safety culture, a management systems approach, incorporating good practices into the day-to-day work and the enterprise providing a workplace conducive to all being able to work to the best of their productive ability.

BUSINESS OPPORTUNITIES

BUSINESS OPPORTUNITIES FROM OSH, CSR AND SUSTAINABLE DEVELOPMENT

As standards and expectations globally increase there is an increased demand for products to be ethically and sustainably sourced requiring innovative thinking for research, development and marketing.

As a further dimension to consider when investing in OSH there is the appreciation that products and services for improved performance in OSH, CSR and sustainable development can be marketed globally: products such as; safety equipment for lifting, floor coverings to prevent injury in playgrounds, use of less toxic chemicals in cleaning fluids, recyclable natural materials as substitutes for materials and substances for domestic and industrial use. OSH information and monitoring systems, support and counselling services can also be developed and marketed to improve business workplace efficiency.

There are good business opportunities to be grasped from thinking innovatively and laterally about OSH.

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This information is provided as guidance only to assist employers consider the costs and benefits of investing in occupational safety and health measures. It is not comprehensive and definitive and could never cover all the factors in enterprise and countries of the world. It is intended that employers could use it as a basis and adapt it for their own situations and circumstances. I would welcome any comments that would improve the publication and help me to help you.

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