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COST SAVINGS THROUGH BETTER SAFETY

Past historical data gives proof that investing in safety and health will help control a company's bottom-line during all phases of the company life cycle. The one problem with this statement is that society today is all about the “here and now” and is often not concerned with the future. In many situations, employers worry about safety and health only as it relates to being regulatory compliant at a minimum with governing agencies. But if these companies fully embrace the concepts of implementation and make safety and health a core value, the potential return on investment relating to injury prevention, along with the creation of a safe work environment can be huge, monetarily and culturally.

Throughout history, data shows this statement to be true. Improved safety practices has reduced injuries and fatalities by more than 50 percent in the past three decades. This 50

Return of Investment from Making Safety and Health a Core Value

- ▶ Better safety efficiency (pre-planning) without creating higher costs and schedule interruptions
- ▶ Employee injuries accounting for only 2.5 percent of project costs because of a well-implemented safety program compared with 6 to 9 percent of project costs without such a program
- ▶ Lower injury rates, which in turn means higher profit margins.

Source: “Safety is a function of management” (Heinrich, 1959; Murphy, 1992; Brauer, 1994).

percent drop in worker injuries contradicts the fatalistic view by management in the mid-1960s that levels of injuries were relative to levels of hazards in the work environment and that the injuries were unavoidable.

Safety should always be viewed in a positive view—not in a fatalistic manner. A company's main objec-

tive should be to have no worker injuries. With this objective must be an unbreakable belief that the goal of zero injuries is attainable. While companies should plan to have no injuries, they must still have a well thought-out safety plan in the event of a work-related injury. This is where the problem lies. How can safety

professionals justify spending money on a theory or a hunch that an accident or incident might happen to the company and its employees? Most companies look at expenses versus revenue and just focus on tangible elements of business and not on possibilities.

Employees do not have total control of their safety, because a safe work environment consists of more than employee involvement. Some factors to consider changing include the use of funds to make physical conditions safer and improved coordination of work activities (Hinze, 1997). These two factors rely heavily on managerial personnel to identify unsafe conditions and less on unsafe employee work habits.

In general, accident prevention is accepted as the responsibility of management (Hinze, 1997). However, companies differ in the amount of resources they dedicate to accident prevention programs. This difference could stem from varying perceptions of the degree of influence that management can have on reducing worker injuries.

"If the true costs of injuries were well defined, management would be in a better position to make informed decisions concerning safety. Rather than addressing safety solely from an altruistic point of view, owners should also consider safety from a more purely economic perspective." (Hinze, 1997)

Obviously, safety should be a priority and the responsibility of management simply because managers are concerned about the welfare of those who work for them, but in addition, there are the out-of-pocket costs incurred when injuries occur. Research data collected by the Department of Labor has shown that between 1980 and 1987, workers' compensation insurance cost doubled in the United States. This upward trend has continued. The Workplace Safety and Insurance Board (WSIB) forecasted that insurance premiums will increase from 5 to 30 percent in the next year, depending on the state, due to the amounts being claimed.

Companies could be paying 10 to 20 percent of their direct labor cost for workers' compensation premiums due to higher Experience Modification Rates (EMR), which in turn exceeds their profit margins. The Department of Labor further indicates that it is not uncommon for companies with poor safety performance to pay twice the premium costs compared to those who have good safety records.

Increasing medical costs, litigation and ballooning insurance premiums that are identifiable costs associated with an accident are considered direct costs. One problem when identifying the direct costs associated with safety accidents is that indirect costs or hidden costs are also

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Safety

going to be conjoined with direct costs. The magnitude of the accident, not necessarily the severity of the injury, makes the ratios of direct and indirect costs vary greatly. Some estimates of ratios between indirect and direct costs vary from about 1:1 to 20:1 (Department of Labor).

To better understand direct and

In 2001, the Workplace Safety and Insurance Board (WSIB) identified the expense of one lost-time injury to cost an employer an average of \$35,000 in direct costs alone.

indirect cost, direct costs are those costs directly attributed to or associated with an injury (Hinze, 1997). Most of the direct costs are usually covered by the workers' compensation insurance policies. Some examples of direct costs include:

- ▶ Any type of transportation/ambulance service required for the injured party
- ▶ Medical and ancillary treatment prescription by a healthcare provider
- ▶ Prescribed medication costs
- ▶ Hospitalization
- ▶ Disability benefits, which can include lost wages of the injured person

Thus, the direct cost of injuries tend to be those associated with the treatment of the injury and any unique compensation offered to workers as a consequence of being injured (Hinze, 1997).

Indirect costs are more elusive than costs associated with an employee accident and are often referred to as hidden costs. Indirect costs are costs with no retrieval mechanism to accurately associate the cost to the injury—the idea being that it is not a matter of whether a specific cost has been identified, but whether the cost is a result of the injury.

In the construction industry, indirect costs of injuries are much easier to detect due to the different work environment construction workers are involved in on a daily basis. When a construction worker is injured, treatment is immediately given, either first aid or medical attention, depending on the severity. During this time, the injured worker is being paid for his or her time, travel time and work crew stoppage. And when he returns to work, he will not be working at 100 percent. Also, if the injury is particularly severe or dramatic, supervisors and company officials may need to be

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involved because of media attention over the accident. With the growing costs of the industry, safety professionals have acknowledged the presence of indirect, or hidden, costs of injuries.

Many researchers, when studying the concepts of direct and indirect cost, try to express their relationship in a ratio. H.W. Heinrich in 1979 was the first to try this, and he estimated the ratio of the indirect costs of injuries to the direct costs to be approximately 4:1. The data used to reach this conclusion was information gathered from various industrial facilities in the United States. The one problem with Heinrich's 4:1 ratio was that it did not have a chance to factor in the steep escalation of the health care costs (direct costs), which might reasonably be expected to be lower today.

Heinrich's factor of 4 was stated for many years as the ratio of the indirect costs of injuries to the direct costs. Computations in the 1980s became less conservative. In a study conducted by R. Sheriff (1980), he showed that the ratio of indirect and direct costs may be as high as 10 compared to Heinrich's 4. F. Bird and R. Loftus (1976), tracked the ratio to be as high as 50. With all these studies representing different ratios, the common bond accepted was that indirect costs were very significant when examining the cost of an injury.

Results of historical studies indicate that greater attention should be given to indirect costs of worker injuries. The data from indirect costs of medical-case injuries are nearly similar to the direct costs. Even with the data from indirect and direct costs being very similar in amounts, indirect costs balloon exponentially when liability cases are sought for a worker's injury. Very large monetary amounts can still accumulate into large sums when there are multiple

injuries. With this understanding, here is a brief example of how much an injury can affect a company's output or bottom-line if trying to make a 3 percent profit goal:

If a company acquired a \$50,000 loss due to injury, illness or damage and still tries to make a 3 percent profit, the

company theoretically must increase sales of services by an additional \$1,667,000. [Example taken from Electronic Library of Construction Occupational Safety and Health (eLCOSH)]

Even with this data, there is still unwillingness to embrace safety and health programs fully within some

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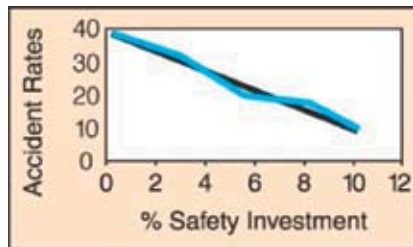
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■■■ Safety

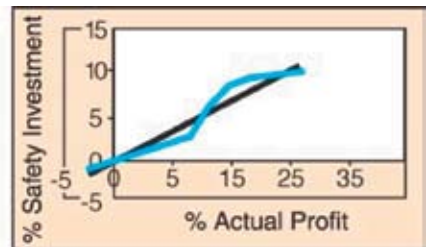
organizations. This reluctance is mainly due to fear and the ability to maintain adequate safety personnel. Studies show that there is a direct correlation between lower accident rate reduction and increased safety investment (see the charts to the right) and increases safety investment in relation to increased profits. As noted earlier, the implementation of a safety and health program will not have a huge financial impact at the beginning stages of implementation, but given time, it will certainly pay for itself and make the company profit in years to come. ■

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Accident Rates Related to Safety Investment



Safety Investments Related to Actual Profit



Graphs reproduced from A.J. Joseph, "Safety costs money and can save money" in Singh, Hinze and Coble (editors), *Implementation of Health and Safety on Construction Sites*, 1999.

certificate. His experience includes positions as a field safety engineer for Danis Environmental Industries (St. Petersburg, FL) and quality/safety engineer for General Electric GE (Louisville, KY).

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