THE COST OF UNSAFE BUSINESS

"SAFETY PAYS" ISN'T JUST A CUTE SAYING. IT'S THE TRUTH.

The "CHECKER"®

When business executives think about safety, “doing the right thing” and compliance usually come to mind first.

“Dong the right thing” is the moral element of safety. Any executive with an inkling of compassion will think it’s important to keep employees and their families from going through the pain and hardships that workplace accidents can cause.

Compliance, on the other hand, is all about not getting caught “doing the wrong thing.” You can get executives’ attention very quickly when you start talking about the costs of non-compliance, including large fines and accident liability.

But while preventing tragedy and being compliant are justification enough for an executive-driven, enterprise-wide commitment to safety, they’re not the whole story. There’s another compelling reason for executives to buy in to the importance of doing business safely—it leads to greater profitability.

Making short-term decisions to “help the bottom line” at the expense of a strong safety program is counterproductive. “Safety pays” isn’t just a cute saying promoted by OSHA. It’s the truth.

However, in their day-to-day focus on business performance, executives often make short-term decisions that negatively impact safety. Why? Because they don’t fully appreciate the relationship between safety and profitability. They don’t realize that short-term “cost-saving” measures that compromise safety aren’t really cost-savers at all.

If you’re someone responsible for safety at your company, you can improve its “safety culture” by working to change that executive mindset. By educating executives on exactly how improved safety leads to better business performance, you can hopefully gain the financial resources and executive buy-in that are essential to any successful safety program.

This paper outlines the business case for safety that you can make, as well as how to go about implementing an effective safety plan with the budget you’re given.

The Problem of Workplace Injuries

According to the latest complete annual data available from the U.S. Bureau of Labor Statistics, there were 4,693 fatal work injuries per 100,000 workers[1] and 3.6 million non-fatal injuries per 100 workers[2] in 2011. That's an incidence rate of 3.5 deaths per 100,000 workers and 3.6 non-fatal injuries per 100 full-time workers.

Those numbers are *much* too high. The vast majority of those accidents could have been prevented. And so, too, could have the cost—an average of $22,588 per injury.[3]

Yet for workplace safety to get the attention it deserves, it seems to take a major catastrophic event like the West, Texas fertilizer plant explosion in April that killed 15, injured more than 160, and destroyed hundreds of buildings.

That tragedy is indeed an illustrative case study—albeit extreme—of how doing business in an unsafe manner can have dire consequences for employees, society, *and the company itself*. The city has sued the owner of the plant, as well as the plant's supplier—claiming the ammonium nitrate that exploded was improperly stored.[4] Whether or not the owner and supplier are found liable—something went wrong! The workplace obviously wasn't safe.

The result for the fertilizer company? They're probably going to have to file for bankruptcy.[5]

But the consequences of inadequate safety don't have to make the world news for them to be catastrophic for the people who are hurt (or killed) as a result—or for them to be a serious financial blow for their employer.

Although rarely as wide-reaching as what happened in Texas, similar scenarios happen all the time—conducting business in an unsafe way leads to an accident that results in human suffering and substantial costs.

And the financial hit doesn't just come from lawsuits and fines due to any non-compliance with laws, regulations or standards. Many other substantial direct and indirect costs related to the accident arise in normal operations after a workplace injury.

1 "Census of Fatal Occupational Injuries Summary, 2012". U.S. Bureau of Labor Statistics. Web. 7-18-13. http://www.bls.gov/news.release/cfoi.nr0.htm.

2 "Table 5. Incidence Rates and Numbers of Nonfatal Occupational Injuries by Selected Industries and Ownership, 2011". U.S. Bureau of Labor Statistics. Web 7-18- 13. http://www.bls.gov/news.release/osh.t05.htm.

3"Workplace Injuries and Illnesses Cost U.S. $250 Billion Annually". Economic Policy Institute. 1-3-13. http://www.epi.org/publication/workplace-injuries-illnesses-cost-250-billion/.

4"West, Texas Sues Owner of Exploded Fertilizer Plant". RT. 6-26-13. http://rt.com/usa/west-texas-plant-explosion-289/.

5"Texas Tragedy May Cost Fertilizer Plant Only $1 million". RT. 5-6-13. http://rt.com/usa/west-texas-fertilizer-insurance-888/.

A "True" Cost/Benefit Analysis

To make a compelling business case, you need a detailed cost/benefit analysis for investing resources in safety. In the analysis, be sure to include all the costs of unsafe business practices, as well as the benefits of a safe workplace. You need to get executives to look further than the direct costs to get a true picture of the financial importance of safety.

Direct Costs

The direct costs of on-the-job accidents that lead to injury or death include:

- Increased worker's compensation premiums.
- Increased premiums for employee group health insurance.
- Medical expenses not covered by worker's compensation insurance (dependent on the company's worker's comp plan).
- Damage to property and equipment.
- Cleanup.
- Wages paid to injured employees who aren't working (dependent on the employee contract, company policy, and the worker's comp plan).
- Any legal services needed to defend the company from lawsuits and fines.
- Fines or liabilities incurred because of the accident.

The direct costs can be huge if the lawyers have to get involved!

But the vast majority of cases don't end up in court. For these cases (the "everyday" injuries), the indirect costs are where the real financial pain is. That's why it's so crucial that indirect costs are included in the cost/benefit analysis for safety investment.

Indirect Costs

There's an inverse relationship between the direct costs and indirect costs of an on-the-job injury. In other words, the less the direct cost, the greater the ratio of indirect cost to direct cost.

The following is a suggested scale in calculating the ratio.[6]

Direct Costs	Indirect Cost Ratio
$0 - $2,999	4.5
$3,000 - $4,999	1.6
$5,000 - $9,999	1.2
$10,000 or more	1.1

6"OSHA's $afety Pays Program: Background of the Cost Estimates". U.S. Occupational Safety & Health Administration. Web 7-18-13. https://www.osha.gov/dcsp/smallbusiness/safetypays/background.html.

What are these indirect costs? Any cost that can't be directly attributed to the injury but are nonetheless suffered by the company, including:

- Immediate loss of production due to work stoppage when the accident occurs.
- Loss of productivity due to a lost employee who isn't replaced.
- Disrupted work schedules of employees throughout the company who are "filling in"—resulting in lower productivity for those employees.
- Loss of productivity due to a lost employee replaced by a less-skilled worker.
- Recruiting and hiring of replacement workers.
- Training of replacement workers.
- Lost supervisor time dealing with the accident aftermath and productivity/scheduling issues.
- Administrative tasks related to the accident, scheduling, and adding replacement employees.
- Damaged customer relationships due to missed orders or deadlines.
- Decreased employee morale that lowers productivity.
- Harm to the company's reputation that has far-reaching consequences in sales, marketing, employee recruitment/retention, investor relations, governmental relations, etc.

Although in an accounting sense, these costs aren't "directly" related to the injury, they are unquestionably a *result* of it. The key financial decision-makers at your company need to understand this relationship very well. An injury can be accounted for "on the books" but still hurt a business's financial performance for a long time to come.

Top-Line Benefit

In addition to touting the cost-avoidance benefits of safety, it's helpful to highlight the opportunity to increase revenue by improving safety.

A reputation for excellence usually leads to increased sales, but a key element of that reputation is a company's safety record. A company can't gain the additional revenue that comes with a stellar reputation if its employees keep getting hurt and/or hurting other people due to unsafe business practices.

When that happens, customers, prospects, partners, lenders, investors, and prospective employees are all left wondering: "If a company can't manage to do its business safely, then what else can't it do?" That's not a thought that leads to sales growth—or to the talent and funding necessary to facilitate that growth.

Conversely, a strong safety record sends the message that the company has high standards—a perception that grows sales, attracts revenue-generating employees, and encourages investment and lending to leverage growth.

Calculating the costs for your company

The "CHECKER"®

The hard work in making a business case for safety is calculating the direct and indirect costs per incident at your company. There's too much variance in company sizes, types, functions, etc. to provide a meaningful average or range for all companies.

As best as you can, with all the help you can muster, analyze your company's records to come up with estimates for direct costs related to on-the-job injuries, as well as the many indirect costs. Don't get too caught up on accuracy—it's important, but don't turn this into an academic exercise in cost accounting. Remember that the purpose is primarily to make a reasonable business case that will convincingly illustrate that the cost-saving benefits of safety investments far outweigh the investment costs. If you're at a typical company, you can "lowball" the numbers, and still have a great case.

You can find various calculators on the Internet for converting the total cost of an injury into the additional revenue needed to offset that cost.

But no matter how you present the numbers, once you include all the direct and indirect costs of an unsafe work environment, the people you're trying to convince will find it difficult to deny that there's a financial imperative to safety in addition to the moral and compliance imperatives.

To bolster your case, bring up that it's less-expensive to invest in safety now than to retrofit systems for safety later when forced to because of costly accidents.[7] This point makes it even clearer that overlooking safety is shortsighted.

7"The Business Case for Safety." U.S. Occupational Safety & Health Administration. Web 9-18-13. https://www.osha.gov/dcsp/success_stories/compliance_assistance/abbott/abbott_case-studies/index.html.

What Has to Change

So you convince the owners, the Board, the CEO, the management committee—whoever controls the purse strings—that it's wise to invest more in safety. What happens then? Is the problem taken care of? No. Far from it. Creating a safe workplace isn't just about resources—it's about attitude. Safety must not only be funded; it must be appreciated as vitally important by both management and employees.

Management

If safety isn't genuinely a top priority of the relevant executives in your company, that attitude must change for any investment in safety to pay off. Employees can tell what the real priorities are—no matter how much lip service executives pay to safety or how many safety programs they fund.

Of course, funding *does* speak volumes—and when a company begins instituting safety programs, employees will start to realize that safety is being taken more seriously.

But it also takes good old-fashioned leadership. If you're someone tasked with responsibility for safety, focus on clearly articulating the importance of safety to employees in a way that gets them to buy in to the concept. But the leadership must also come from the very top of the company—so you also have to articulate that importance to those people.

Number two on EHS Today's top five safety management trends is "creating a safety culture" and number five is "getting c-level attention."[8] The two are closely related. Without active, visible support from the top, your efforts to create a better safety culture will be challenging. It will go far easier if you can turn key leaders into "for real" safety champions.

You want the executive team asking questions such as:

- "Is every employee engaged in our safety program?"
- "When is our next accident likely to occur?"
- "How much risk are we exposed to?"
- "How do we measure safety performance?"
- "Do we have people accountable for safety?"
- "What can we as leaders do to promote a safety culture?"
- "What investments can we make to lower the costs associated with on-the-job injuries and fatalities?"

If they want to know the answers enough to ask, it shows they're on their way to a good understanding of the full scope of the costs that arise from being less safe than possible.

8"Top 5 Trends in Workplace Safety Management for 2013". EHS Today. 12-13-12. http://ehstoday.com/safety/top-5-trends-workplace-safety-management-2013?page=3.

The Importance of Measurement

Safety advocates should like it when executives ask questions specifically about how to measure the performance of a safety program, because it means the executives are taking safety seriously. Business is driven by performance measurements, and without them, you'll have a hard time getting the attention for safety that it deserves within the company's business plan and corporate philosophy.

When championing safety, measurements are your friend. They quantify the reality that safety is good business. As part of the safety initiatives you propose, include performance measurements as much as possible.

Employees

Even if executives and safety leaders have no trouble seeing the wisdom of focusing on creating a culture of safety, actually creating the culture is often a daunting task.

Let's face it; many employees simply want to get on with their work—or they want to do as little work as possible. Either way, they don't want to take the time for safety measures, such as inspecting equipment before use.

And safety-awareness classes can often feel like drivers' education classes in high school, where the instructor showed pictures of gruesome wrecks to scare you into driving safely. It's easy to think, "I'm not going to let that happen to me." It's human nature to think you're being safe, even when you're not—otherwise why would you be doing whatever it is you're doing? Who *wants* to get hurt?

Fortunately, you can take steps to change the indifference—and outright displeasure--you might very well encounter among employees who are asked to make the effort to be safer:

- Give employees the resources they need to be safe.
- Regularly highlight the importance of safety in formats such as daily email reminders, newsletters, bulletin-board postings—whatever you can use to continually spread the word about safety's importance and how to be safe.
- In all communications with employees about safety, emphasize that safety benefits them more than anyone. They need to realize that by being safer in their jobs, they're looking out for themselves!
- Provide easy-to-follow protocols for reporting safety issues, and make sure employees understand that the company wants to know where safety can be improved—there should be no fear of higher-ups "shooting the messenger."
- Provide employees with easy access to data concerning on-the-job injuries or fatalities. Or better yet, make a point of sharing this information with employees.
- Give employees a chance to become involved in the safety program, with compensation.
- Reward employees for being safe. This can be as simple as an award or prize—but much more meaningfully, it can be more compensation!

9"Census of Fatal Occupational Injuries Summary, 2012" U.S. Bureau of Labor Statistics. Web 9-18-13. http://www.bls.gov/news.release/cfoi.nr0.htm

Allocating Resources

When it comes to using the funding you can get for safety, you have no shortage of options, including spending on process improvements, financial incentives, safety education programs, and tools used to facilitate safety.

An example of a safety tool is an equipment inspection checklist, such as The Checker, which employees are required to complete before using any equipment. This simple, relatively inexpensive tool:

- Ensures unsafe equipment isn't operated.
- Engages employees in the safety process.
- Shows employees that the company takes safety seriously.
- Helps employees develop a sense of "ownership" for the equipment they regularly operate—leading to better care of the equipment.
- Identifies equipment that requires maintenance before the problem becomes more costly to fix.

For companies that regularly use on-road or off-road vehicles in their operations, safety inspection checklists are a particularly prudent use of safety resources. (Transportation incidents accounted for more than two out of every five fatal work injuries in 2012, with 13 percent of those fatalities involving off-road vehicles such as forklifts.[9]) And many other types of equipment also need daily safety inspections.

In other companies, however, the condition of equipment may not be a primary safety issue. For some companies, dangerous processes may be the problem. For others, environmental hazards need to be addressed. As with the cost/benefit analysis, allocating your safety resources will depend on your company's situation.

It's up to you to decide how to best allocate the resources you've advocated so hard for—but that's a nice problem to have!

Conclusion

Business executives think in business terms, so to gain additional resources for safety improvements, safety leaders need to make a business case for the importance of safety. When added to the moral and compliance reasons for safety, a strong business case for safety investment can often lead to an increased safety budget.

But that's only the beginning of improving the safety culture at a company. During implementation of safety initiatives, you must also get genuine, active executive support, as well as buy in from employees. And then you must decide how to best use the resources you have.

In your effort to improve safety, you'll need to be a facilitator, communicator, planner, change agent, partner, expert, and salesperson, among many other things. It takes a lot of skills, but it can be done!

When you're contemplating the best way to use your safety resources, please consider The Checker inspection books or mobile software.

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