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## Calculating Your Return-on-Investment (ROI)

*By: John Juresic, Loss Control Consultant, Thomas McGee, L.C.*

One of the biggest challenges that the person charged with overseeing the Safety and Health program is to prove that the program is worth its cost. One of the best ways to prove its worth is by demonstrating the positive Return-on-Investment (ROI). This article provides the information needed to demonstrate the financial impact the Safety and Health programs have on the organization.

ROI answers the vital question top management wants to know: "For every dollar we invest in the safety program, how many dollars are we getting back?" To be sure the program is seen as beneficial to the organization, the answer to that question must be with hard data. In other words, show the percentage of profit made or savings earned for every dollar spent. And that's exactly what calculating training ROI can do for you.

How to measure safety training ROI? Here is a simple formula for measuring safety training ROI:

$$\text{ROI (\%)} = ((\text{Monetary benefits} - \text{Training Costs}) / \text{Training Costs}) \times 100$$

**EXAMPLE:** Assume that as a result of a new safety training program, an organization's accident rate declines 10 percent, yielding a total annual savings of \$200,000 in terms of lost workdays, material and equipment damage, and workers' compensation costs. If the training program costs \$50,000 to implement, the ROI would be 300 percent.

$$\text{ROI} = ((200,000 - 50,000) \div 50,000) \times 100 = 300\%$$

In this example, for every \$1 spent on training, the organization gained a net benefit of \$3.

Why should all of this matter?

- ✓ Minimizes accidents, lost workdays, and workers' compensation costs
- ✓ Promotes regulatory compliance and avoids costly fines and lawsuits
- ✓ Improves productivity and the quality of products and services
- ✓ Keeps your organization on the cutting edge, which gives you the edge over the competition
- ✓ You have to be able to convince the people at the top that it's worth the cost--and that's when ROI analysis can be your best ally.

### **Editor's Note:**

*The KING Safety Matters newsletter is published monthly to provide general safety information. It is not a substitute for adequate safety training, or intended to provide complete safety information or training, on any specific subject. The information contained herein is intended to assist safety efforts, and increase safety awareness.*

*In order to ensure the contents of the newsletter are helpful and important to you, please feel free to send comments, suggestions and feedback to:*

**John Juresic**  
Loss Control Consultant  
Thomas McGee L.C.  
[jjuresic@thomasmcgee.com](mailto:jjuresic@thomasmcgee.com)

**Kevin McFarland**  
President  
KING  
[kevin@leadingageworks.org](mailto:kevin@leadingageworks.org)



## 7 Steps to Integrate Safety and Health into the Business Value

The following 7 steps will help Health & Safety professionals adopt a system for measuring the performance of health & safety functions in the context of their value to the organization, and for communicating results to business and financial executives.

- **STEP 1: Identify the Organization's Value Drivers.** "Value drivers" are the specific values that steer the organization's overall business strategy and decision-making processes.<sup>1</sup> For example, profitability is a primary value driver for businesses, but the organization's reputation can be a powerful secondary driver for generating new revenue or protecting market share.
- **STEP 2: Identify Injury and Illness Costs.** Once the values that drive your organization are identified, the next step is to conduct a form of financial "hazard analysis" or an inventory of health & safety related losses or costs that devalue the organization. Injuries and Illnesses are clearly losses to an organization. **OSHA's Safety and Health Management Systems eTool.**<sup>2</sup> Another OSHA online tool estimates the annual cost of accidents at the workplace.
- **STEP 3: Identify Investments in Health & Safety Activities.** In this step, the goal is to view health & safety activities as an investment instead of cost. An accident with injury is a cost. Accident prevention is an investment with benefits in cost control, compliance risk, and reputation.
- **STEP 4: Link Health & Safety Functions to the Value Drivers.** Identifies the links between specific HEALTH & SAFETY functions and the core business values of the organization. The connections will vary depending on a particular organization's HEALTH & SAFETY activities and core business values.
- **STEP 5: Measure Business Value Performance.** Once the connections between health & safety functions and the organization's business values are made in the first 4 steps, the health & safety professional can choose the means to measure health & safety performance in the context of business values, and evaluate and enhance health & safety performance (i.e., streamline, innovate, improve processes) in such a context
- **STEP 6: Communicate Results.** Control Costs, Comply with regulations, Support business initiatives, Protect/enhance company reputation, Everything else (insurance, marketing, employees, investor interests)
- **STEP 7: Follow Up.** Following up is like maintenance activities—vitaly important to the health of the company, but often ignored. Follow up is the key to getting upper management to accept the business case for health & safety in the long term.

**Summary:** The benefits of an organization's health & safety functions and performance are often undervalued due to communication barriers between health & safety professionals and executive management, and a lack of standard metrics for evaluating all aspects of health & safety performance. However, this situation is improving with the advent of health & safety business value metrics and well-organized strategies for using them.

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**Endnotes:** <sup>1</sup>GEMI. *Clear Advantage: Building Shareholder Value*. Washington, DC, February 2004; pp. 10, 26-32., <sup>2</sup> OSHA. 2003. *Safety and Health Management Systems eTool* (accessed March 1, 2012) [http://www.osha.gov/SLTC/etools/safetyhealth/mod1\\_estimating\\_costs.html](http://www.osha.gov/SLTC/etools/safetyhealth/mod1_estimating_costs.html)).

