



talk from the top

OHS becomes 'sexy' for investors

Occupational health and safety has come a long way in the eyes of company and corporate management. Far from being considered just another cost that takes away from the bottom line - the way many companies may have viewed it in the past - it is now being considered 'sexy', especially by investors.

As a research analyst for an investment company, I look intently at many companies, searching for key factors within them that demonstrate value for our investor clients. And from an investors' perspective, we actively consider occupational health and safety performance in our investment decisions, as we believe it is a good measure of management quality, especially in many high-risk industries.

Investors cannot afford to ignore the overall cost of workplace injuries that are carried by Australian employers, amounting on average to be 6% of their profit.

High workers compensation and medical costs as a result of poor OHS performance within a company can reduce its ability to compete in its particular market. They will also struggle to attract the desired attention from prospective investors. And that is understandable because investors should be aware of the financial risks that OHS issues carry for profit-making companies.

The NSW president of the Safety Institute of Australia (SIA), Karen Wolfe, asked me to present at this year's The Safety Conference Sydney so that health and safety professionals can learn to 'sing off the same page' as investors. Notably, the added interest in risk management that has been aroused by the recent global financial crisis offers a turning point for OHS. It is no longer an 'ugly duckling' that is tangled up in red tape, procedures and compliance costs. A good OHS strategy is now recognised as smart risk management of those most valuable and vulnerable assets - people and reputations.

There are three OHS costs that are of concern to investors:

- workers compensation premiums;
- indirect costs
- the costs associated with alleviating workplace incidents.

The indirect and unbillable costs that are associated with workplace injuries are like an iceberg. They represent a huge percentage of the total cost that is impossible to assess until you run into trouble.

The disruption to production caused by workplace injuries was reported to have cost Australian businesses an estimated \$490 million in 2000-01. On top of that, the extra administration costs associated with these injuries amounted to another \$360 million. Furthermore, safety incidents can also trigger the loss of goodwill for a company, strikes, recruitment issues and dozens of other immeasurable costs - the unseen part of the 'iceberg'. The United Kingdom's Health and Safety Executive indicated that the cost of uninsured losses is approximately 10 times the business cost of insurance premiums paid for the same period, putting these unseen costs into perspective.

An injury with \$1000 in direct claims costs will also bring about another \$5000 of indirect costs. If we assume a 5% profit margin for a company, that added cost equates to \$100,000 of turnover. This simple return on investment (ROI) illustrates just how valuable preventive occupational health and safety measures are to a company's financial bottom line.

Still, there is more to investing than just the economic case for improving OHS performance. As well as the economic costs, inequality of benefits, costs and suffering are also key issues. We cannot ignore the fact that all people have the right to return home from work safe and sound.

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Dr Ian Woods is a Senior Research Analyst for AMP Capital Investors. Woods will join Chair of Safe Work Australia Tom Williams, WorkCover NSW General Manager - OH&S John Watson, Comcare's Matt Goldrick and Professor Ron McCallum of the University of Sydney to tackle the theme of 'OHS - Singing off the Same Page' at The Safety Conference on October 27 during Safe Work Australia Week at the Sydney Showground