



Session 6

COST-BENEFIT ANALYSIS

COST BENEFIT ANALYSIS

Used to compare capital investment alternatives

provide the basis for deciding opportunity to improve safety and health



“The biggest difficulty with cost benefit analysis is the estimation of the benefit side.”



COST BENEFIT ANALYSIS

- show that investing in occupational safety and health yields positive results (based on benOSH case studies)
- method commonly used to make an economic evaluation of the costs and consequences of an action, expresses in monetary terms

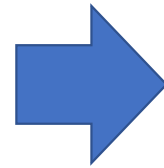


COST BENEFIT ANALYSIS

calculation
of indicators



- Net Present Value
- Profitability Index
- Benefit Cost Ratio



helpful in decision-
making
*(e.g. to make a choice
whether or not to invest,
or to choose between
two alternative
measures)*



INDICATORS

<p>1. Net Present Value NPV</p>	<p>Sum of the present values (PVs) of the individual cash flows.</p> <p>Gives an indication of the amount a project adds to the value of a company.</p>	<p>Accepted when the NPV is larger than 0.</p>
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INDICATORS

<p>2. Profitability Index PI</p>	<p>Ratio of the present value or cash flows and the initial investment.</p>	<p>Profitability Index of less than one suggests that the project should be rejected and value of one or greater suggests that investment should be accepted.</p> <p>Given a choice between two or more alternative projects, the one with the largest PI should be chosen.</p>
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INDICATORS

<p>3. Cost-Benefit Ratio (CBR)</p>	<p>Ratio of the benefits of a project relative to its costs.</p> <p>Both benefits and costs are expressed in discounted present values.</p>	<p>Accepted when the CBR is larger than 1.</p>
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Conclusion

- Investing in occupational safety and health is profitable
- In times of crisis, restructuring and reorganization, management is especially focused on cost-cutting in order to maximize profits in a competitive market.
- This strategy often leads to cutting the expenditures for health and safety, instead of focusing at cutting avoidable costs (such as the costs of accidents at work and work-related ill-health) that offer no added value.



- Developing and implementing prevention measures should be considered as investments generating a reduction or elimination of avoidable costs linked to accidents and ill-health.
- Investing in health and safety creates benefits - equal to the reduction of the avoidable costs – that add value to the firm.
- Investing in health and safety increases the productivity and the performance of staff and equipment, thus creating a double added value to the firms' profit.

