



## Session 6 **COST-BENEFIT ANALYSIS**

### **COST BENEFIT ANALYSIS**

Used to compare capital investment alternatives

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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

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



## INDICATORS

2. Profitability Index PI	Ratio of the present value of cash flows and the initial investment.	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.
	Given a choice between two or more alternative projects, the one with the largest PI should be chosen.	



## INDICATORS

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



## 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.



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