

The business case for OH

Part 2: long live the ROI – making the data work for you

In the second of a two-part article in making the business case for occupational health, Andrew Gilbey takes a fictional company and explains how its OH services might make the case for investing in a project to reduce the organisation's sickness absence burden.

PART 1 of this two-part examination of the occupational health (OH) business case considered the broad principles in convincing an organisation's decision-makers of the merits for investing in occupational health; maintaining the current budget, expanding the service or investing in new initiatives¹. In this final part, we will consider a worked example of how an OH service might make and present its case.

The case concerns an in-house OH service in a fictional large organisation, Aspirational Enterprises UK Ltd, trying to secure additional specialist resources to help the organisation reduce its sickness absence levels. The principles on how best to make the case remain broadly the same, whether as a request for additional resources to improve attendance, embarking on an immunisation campaign, introducing an employee assistance programme, or investing in a new health promotion and wellbeing campaign.

RESEARCH

The first step in the business case process is carrying out some research: in this example demonstrating what percentage of the payroll is lost to sickness absence and how that compares to other organisations in the same sector – or even your competitors. Even if benchmark data is unavailable, national statistics on sickness absence, for example published by the Chartered Institute of Personnel and Development², is a good starting point, including for information on the reasons for such absence.

SIZE MATTERS

Having identified the size of the problem, it should be expressed in a variety of ways that strikes a chord with the finance director (FD), HR director (HRD) or chief executive officer (CEO).

If sickness absence at Aspirational Enterprises is running at 5%, what does that really mean? Given that a 0% absence organisation is realistically unachievable, perhaps the very best you could hope to achieve would be that of the top quartile of employers

in your sector: let's say 3%. So the real problem – or opportunity if you want to put a positive spin on it – is that absence is 2% higher than it should be. If the organisation has a total payroll of £100 million a year then the problem is 2% of that, ie £2 million per annum.

However, no finance director would buy that argument. Given that staff have to be paid whether they are at work or away from work – assuming there is some sick pay scheme in place – then whether sickness absence was 3%, 4% or 5% the pay bill will still be £100 million a year. The key is to delve a little deeper and the real question is: what is the additional cost of the sickness absence?

In answer to the question, and dependent on the nature of your business and sector, one of the true additional costs of sickness absence may be the expenditure on temporary or agency workers to fill the gaps. The payroll, HR or finance departments of larger organisations will have accounting systems that record expenditure on temporary workers and these will be rich sources of data in developing your case.

If Aspirational Enterprises were a hospital, there would be some departments where temporary or bank staff arrangements are essential – eg on the wards – and others departments, such as finance and HR where the work simply piles up pending a return to work. So all lost time will not lead to replacement labour. Thus, in our example, although 2% of excess absence – ie absence above what might be possible – equates to £2 million a year, it may be that only half of staff absence is covered by temporary or bank workers, in which case the problem/opportunity is now £1 million a year.

Conversely, if Aspirational Enterprises were a manufacturing organisation the real problem of a 2% excess absence could be a 2% drop in productivity. Even if the remaining workforce worked that bit harder to cover for their colleagues, the productivity drop might still be a measurable 1% of total widget production, with a corresponding 1% loss in sales and, therefore, profit.

DOING THE SUMS

Taking the need for hard data to make a successful business case one step further, and given that large organisations tend to record the reasons for sickness absence, you should have the raw data necessary to work out where investment is most needed. A rough rule of thumb for absence is a one-third split between mental health, physical health and miscellaneous reasons.

In our scenario at Aspirational Enterprises, when requesting a list from payroll of all staff currently absent from work for over four weeks, you may discover that there are 100 workers off sick long term. An internal audit of the OH service reveals that 30 of these have not yet been referred to OH for support and advice, and from within that number there are 15 employees who have been off sick more than six months and still have not had an appointment. From the 70 who have been referred, you discover that the mean average referral point is in week 15 of their absence – despite the current HR sickness absence policy recommendation in the organisation of referral at four weeks. And, as OH professionals will know, many of those who go on to long-term absence never return to work, representing a huge loss of skilled resource. Thus we have identified two clear opportunities to improve return-to-work rates: by initiating earlier and more efficient referral to occupational health; and by identifying obstacles and facilitators for returning to work for those already off sick long term but who have not already been seen by OH.

You also have access to payroll data, which summarises the duration of spells and main reasons for absence, as given on the fit note. A significant element of short-term sickness absence is attributed to stress and back problems, again highlighting areas for intervention.

The next stage in developing your case is thus to explore whether the OH service can deliver the potential £1 million sickness absence saving *within* its existing funding or resources – in other words, would it be possible to improve referral times without extra investment. This is where it becomes a bit trickier – unless your department is working below capacity – and would most likely require moving some of your existing resource, say from health promotion activities, to absence management. Can you (or would you want to) justify this?

OPTIONS APPRAISAL

It is always wise to prepare a number of options when developing the business case. In cash-strapped business environments, as well as the ‘do nothing’ approach – ie presenting the scenario of what would happen if business carried on as normal – one of the

Business case 1: cutting overall absence

Aspirational Enterprises has a sickness absence rate above our sector average; it currently stands at 5% and is rising. However, by investing in additional staff the occupational health department can reduce this by increasing our short- and long-term absence interventions, reducing referral times and rolling out management training. Absence has been increasing annually since 2010, but by investing in OH resource and OH-led management training we can bring levels back down to the 4.0% we averaged in the five years to 2010. We propose recruiting three full-time-equivalent OH staff to deliver this programme, with a two-to-one return on investment (ROI) in year one – achieved with a year-one average absence of 4.4%, as outlined below. Further ROI can be achieved in years two and three if absence can be stabilised at 4.4% or reduced further to historical levels.

Description	Cost/Metric	Saving
Aspirational Enterprises – annual pay expenditure	£100 million	
Current sickness absence rate	5.0%	
Proportion of sickness absence incurring a direct cost to the business – our payroll data indicates that approximately 50% of staff absence is covered by agency staff/temps and these are direct costs to the business (half of absence is covered by existing staff and is thus cost-neutral)	50%	
Current additional cost of sickness absence	£2.5 million	
Target (projected) annual average sickness absence rate for year one	4.4%	
Projected additional cost of sickness absence for replacement labour at 4.4% absence	£2.2 million	
Annual cost of proposed OH intervention – three full-time-equivalent staff	£100,000	
Annual cost saving (reduced cost of absence minus cost of intervention)		£200,000
ROI for year one (net benefit divided by cost)		2:1

options, as alluded to above, is that the team abandons an existing programme to shift resource to a new initiative. In our example, Aspirational Enterprises has a well-respected health-promotion programme, which has already been evaluated and shown to be delivering a £1.50 return for every £1 invested. What if that resource were moved to the attendance management project where, perhaps, even better returns could be achieved? We will return to this point below.

The key point here is never to corner the organisation but provide the decision-makers with a number of viable alternatives so that there is some real choice.

IDENTIFYING THE ROI

The final issue that needs to be built into any successful business case is to establish the return on investment (ROI) and the length of the pay-back period. Past performance is the best predictor of future results and, therefore, any good business case will look at historical information to project future performance. Absence levels at Aspirational

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Business case 2: detailed analysis of interventions

Aspirational Enterprises has a sickness absence rate above our sector average; it currently stands at 5% and is rising. Analysis of payroll and HR data highlights three areas for intervention: large numbers of staff off work for lengthy periods before being referred by managers to OH; a significant number of employees off sick for more than six months; a high proportion of short-term absence attributed to stress and musculoskeletal disorders. The occupational health department proposes recruiting three full-time equivalent staff to reduce sickness absence. Our three-pronged intervention comprises:

- reduce average referral times from management to the OH department from the current mean of 15 weeks down to an achievable six weeks in year one (with further reductions

in subsequent years) – this can be achieved by prompting managers to adhere to the existing four-week ‘target’ for referrals set in the HR absence management policy, with additional resource to handle the increased OH case load and to educate managers about the need for early referral

- targeted return-to-work programme for very long-term absentees – those off work for more than six months, some of whom never return to work
- ‘Healthy Backs–Healthy Minds’ programme to reduce short-term absence attributable to stress and musculoskeletal disorders.

It will deliver a two-to-one return on investment in year one, as outlined below, with further savings in years two and three.

Description	Cost/Metric	Saving
Aspirational Enterprises – annual pay expenditure	£100 million	
Current sickness absence rate	5% (rising)	
Annual cost of proposed OH interventions – three full-time-equivalent staff	£100,000	
(a) Long-term sickness absence – early referral to OH		
Number of staff on long-term absence (four weeks or more)	100 employees	
Average duration of absence before first OH referral	15 weeks	
Impact of reduced wait if 70 staff were seen nine weeks earlier – ie their first appointment was at week six of their absence rather than at the current average of week 15	630 weeks	
Total lost time saved, based on an achievable (and conservative) 50% success rate – ie 35 of these 70 staff will return to work nine weeks earlier owing to their early referral to OH		315 weeks
Total financial saving in direct labour replacement costs (based on average annual salary of £25,000)		£151,000
(b) Very long-term absentees – return-to-work programme		
Number of staff absent at six months or more	15 employees	
Our estimate is that the return-to-work programme will enable one-third of these very long-term absentees (five employees) to return to work 12 weeks earlier than would otherwise have been the case		60 weeks
Total financial saving in direct labour replacement costs (based on £25,000 annual salary)		£29,000
Proportion of those absent at six months who (currently) never return to work and are dismissed on capability grounds or ill-health retired	33% – five employees	
Cost of recruitment, induction and training for replacement labour (at £5,000 per employee) for long-term absentees who (currently) never return to work	£25,000	
Cost savings if these employees are instead successfully returned to work through targeted interventions		£25,000
Total very long-term absentee savings		£54,000
(c) Short-term absence (less than four weeks)		
Total annual short-term sickness absence due to stress and musculoskeletal disorders (from payroll/fit-note data)	2,000 weeks	
The in-house ‘Healthy backs–healthy minds’ programme will reduce short-term stress/musculoskeletal absence by an estimated 20%	400 weeks	
Annual saving based on £25,000 average salary and 50% agency costs (assuming half of the lost time due to short-term absence can be covered by existing staff filling in)	200 weeks	£96,000
Total savings from short-, long- and very long-term absence		£301,000
Total savings minus cost of intervention		£201,000
ROI for year one (net benefit divided by cost)		2:1

Enterprises have been drifting up gradually over the past three years. It is foreseeable, therefore, that it could take up to six months to get to grips with the problem and even to halt this gradual increase. It can also be persuasive to argue that a previous lower absence level – for example the rate before absence started drifting up three years ago – can be achieved if measures are put in place not only to halt the rise but also to reverse the trend. This can be helpful in justifying your target rate.

Let us assume that Aspirational Enterprises' in-house OH team is seeking a £100,000 investment in staff time to employ a project team, led by a specialist OH nurse, with additional resource for early interventions on musculoskeletal and mental-health problems, an HR/workforce champion to support, train and cajole department managers, and some administrative support – say three full-time-equivalent staff. We have already determined that a 2% reduction in absence in this example will deliver a £1 million saving in temporary and agency staff expenditure. Therefore, to pay back the £100,000 investment in the first year, absence must drop from 5% to a 12-month average of 4.8% (it is not sufficient to simply hit 4.8% at the end of the first year if absence has continued to run at 5% for the preceding 11 months). It is entirely reasonable for the payback period for the project to be two years or even longer, but if the ROI – the net benefit (or 'return') divided by the cost – will never surpass, say, a £50,000 net saving *after* the £100,000 investment in the team is taken account of, then it is unlikely to achieve the organisation's support. In other words, the risk–reward equilibrium would not be attractive enough to merit investment.

As part of 'warming-up' your funders, and given that every organisation is different, a prudent approach would be to meet with key stakeholders – the FD and HRD – and present the initial hard data and key findings. At this point you should seek to explore what period of payback and ROI is likely to be sought. If your FD indicates that a ROI of 2:1 in the first year is required, then that is a major help in developing your key performance indicators (KPIs) for the project. You now know that the cost of sickness absence must be cut by £300,000 in the first year for your £100,000 investment to be approved ($ROI = (\pounds 300,000 - \pounds 100,000) / \pounds 100,000 = 2$). Thus the absence level must average out at 4.4% over year one. You need to make the case that this is indeed achievable, and explain in broad terms how you will do it. Given that any change takes time, the ROI will differ from year to year. It is reasonable, therefore, to build into your model an increasing improvement of ROI as the initiative takes hold and becomes embedded over future years.

A supporting argument demonstrating the OH service's productivity can be made by calculating the organisation's per-capita spend on OH, and benchmarking this against the sector average. A useful resource is the Royal College of Physician's Health and Work Development Unit national audit into back pain³. This shows that the healthcare sector's mean average OH per capita spend is £70 a year (2009 figure). In our example, the OH service at Aspirational Enterprises currently costs the company £50 per employee a year – well below the average. Even the increase in funding required to achieve the proposed improvement in OH referral times and early interventions would still put spending below the healthcare sector average. This would be persuasive at board level and the OH team may also present this along with a Service Activity Review to demonstrate the proportion of their clinical team's time involved in providing direct clinical care.

Boxes 1 and 2 (on p.23 and p.24) give two worked examples of business cases for our fictional organisation, Aspirational Enterprises, showing cost savings and ROI. The first example is a simple analysis assuming overall absence can be reduced to the target of 4.4% from the current 5% – ie approaching the level it was three years ago – by investing in OH staffing and resources. The second example takes a more detailed look at how an investment in specific OH resources could cut referral times, bring long-term absentees back to work, and intervene on short-term absence due to stress and musculoskeletal disorders – putting more flesh on our business case. Both give a healthy ROI of 2:1.

Of course, the OH team would need to be able to defend its business case with supporting evidence. In our examples we have assumed that the relevant data on sickness absence is available from payroll, but published research and benchmark information can be equally valuable in supporting a cost–benefit estimate.

PERFORMANCE INDICATORS

A successful business case needs to be realistic and sustainable and contain a 'dashboard' of KPIs. In our example, the business case at Aspirational Enterprises should include a KPI dashboard, reported monthly to the CEO, FD and HRD, which includes:

- ▶ annual average sickness rate (%)
- ▶ monthly sickness absence rate (%)
- ▶ quarterly rolling average rate (%)
- ▶ numbers of staff absent for over four weeks (including month-on-month changes)
- ▶ numbers of staff absent over three months, six months, nine months and one year (including month-on-month changes)

CONCLUSIONS

- **An essential** element in preparing the business case is to do your homework – where possible support your claims with data from payroll, benchmark statistics or national and sector surveys
- **When** making a case to address sickness absence – the size of the problem/opportunity is the additional cost of absence to the business, for example in replacement labour and lost productivity
- **Consider** if your proposed interventions can be achieved within existing funding and resources, or by shifting existing resources – these are the kinds of questions that decision-makers will ask
- **Present** the decision-makers with a number of viable options, and explain the outcome if the business did nothing
- **Establish** the return on investment (ROI) and the likely pay-back period – it may be possible to establish what kind of ROI is expected by the decision-makers before the full case is presented
- **If the ROI** is low, decision-makers will be reluctant to risk the investment
- **Intangible benefits** – such as the business benefits of good health – can support your case but putting hard financial figures on them can be difficult
- **Make** sure you build in key performance indicators, a commitment to review progress, and an exit agreement if targets are not met

- ▶ numbers of staff absent over four weeks not referred to OH (including month-on-month changes)
- ▶ average duration before first referral to OH (weeks) (including month-on-month changes)
- ▶ staff morale as measured by the annual staff survey (including historical change)
- ▶ staff turnover (%) (including month-on-month changes)
- ▶ staff satisfaction with OH support (%) (including historical change)
- ▶ manager satisfaction with OH reports and advice (%) (including historical change).

INTANGIBLE BENEFITS?

What about 'intangibles' – those benefits, like better staff health and morale for which it is difficult to assign a monetary value? OH is actually at an advantage here, compared with many other functions or departments within an organisation. The problem, however, is not that CEOs, FDs and non-executive directors don't get the argument about the link between staff health and wellbeing and good business performance – most understand it fully, and if not the evidence from Waddell and Burton's⁴ research, and others, can be used to make the point – but that OH teams struggle to make a coherent, logical, hard-nosed, financially sound and performance-driven business case around it.

By all means remind the decision-makers that good work is good for health, using, for example, evidence from the NHS workforce that demonstrates the link

between staff wellbeing and organisational performance, and that healthy and engaged workers are more productive⁵. There is in fact a wealth of supporting evidence on this point, but ultimately the success of your case will come down to the hard numbers, your diligent research, the existing evidence within your organisation, and whether the board have confidence that you and your team are worth the £100,000 investment you are seeking. So, while intangibles can support your case, unless you are really sure of your evidence don't even attempt to put a financial figure on them.

CLOSING REMARKS

The final point that must always be included in any business case is a clear exit strategy that minimises any risk to the organisation. In our example, the OH team at Aspirational Enterprises provides assurance to the board-level decision-makers by:

- ▶ reporting the KPI dashboard to the senior management team monthly
- ▶ agreeing to close the initiative at 12 months if the targets have not been achieved.

A well-developed business case should answer all the key questions that financial decision-makers will ask of the OH team – and that includes, as we have seen here, a clear commitment to halting further funding should the initiative fail to deliver on agreed goals. But no matter how well researched the business case is, and how well it would stand up to scrutiny, the key is to make sure your case is well presented to the financial decision-makers so that all your hard work pays off. ■

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Notes

1 Gilbey A. The business case for OH. Part 1: making the business case for occupational health. *Occupational Health [at Work]* 2014; 11(2): 14–16.

2 Miller J, Dickinson H. *Annual absence management survey report 2012*. London: Chartered Institute for Personnel and Development.

3 Health and Work Development Unit. *Back pain management: occupational health practice in the NHS in England – a national clinical audit*. London: Royal College of Physicians, 2009. ohaw.co/1mpn2u8

4 Waddell G, Burton AK. *Is work good for your health and wellbeing?* London: The Stationery Office 2006.

5 Boorman S. *NHS health and wellbeing: final report*. Leeds: Department of Health, 2009.