The Accounting Revolution and the New Sustainability

Implications for the OSH Professional

A report from the Center for Safety and Health Sustainability

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Center for Safety & Health Sustainability

Contents

This report was created to increase awareness of and foster an international discussion on the role of occupational safety and health in sustainable organizations. Interested parties are invited to provide feedback and comment on additional ways the Center can advance this topic. Feedback can be provided to info@centershs.org.

Center for Safety & Health Sustainability

About this Report

The Center would like to thank the American Society of Safety Engineers, the Institution of Occupational Safety and Health (UK), the American Industrial Hygiene Association and the Canadian Society for Safety Engineering for their support and input in compiling this report, which was developed by Dennis Hudson and edited by Laura Clements.

Center for Safety & Health Sustainability

Introduction

Over a quarter of a century after the idea of "sustainability" was first introduced it has evolved into a seemingly all-encompassing concept covering a wide array of social, environmental and governance issues. Born out of a desire to protect or "sustain" the natural resources of the planet, the definition of "sustainability" now includes a wide assortment of issues. This includes promoting the rights of people with disabilities, climate change, bribery and corruption, child labor and worker safety and health, among others. While this all-inclusive approach to sustainability is admirable in its goal of bringing attention to pressing societal issues, the manner in which it is currently executed has the potential to scatter focus on these critical issues in the boardroom.

One way to address this concern is to prioritize sustainability-related issues by identifying those that are "material" to an organization or specific industry. Materiality has its roots in corporate financial reporting and has moved to the forefront of sustainability-related discussions. It is an accounting principle that requires financial information relevant to the decision making needs of end users be disclosed. Driven by the recognition that material sustainability data and metrics are important to financial investment decisions, the financial community has begun to develop guidelines and standards on how material sustainability information should best be reported. As a result, sustainability has evolved from a concept driven by politics and non-governmental organizations (NGOs) to a corporate imperative demanded by the financial community and other key stakeholders.

"Born out of a desire to protect or 'sustain' the natural resources of the planet, the definition of 'sustainability' now includes a wide assortment of issues."

Sustainability's emergence as a measure of corporate performance recognized by the financial community has broad implications for the occupational safety and health community, which has recognized as far back as 2003 that OSH was material to all businesses:[1]

> We believe it is probably the case that, if asked, most directors would acknowledge "people are the company's most valuable asset" and that consequently, protection of employees is material to all employers. It is by ensuring the health and safety of their workers that businesses help maintain their reliability and their skill and experience base – crucial in today's competitive environment.

With the increased interest from the financial community, one immediate and profound impact is that OSH has been deemed a material issue for 22 industries by the United States-based Sustainability Accounting Standards Board (SASB), thus making OSH in those industries a topic for corporate boardroom discussions. This elevated status will ultimately lead to increased focus on OSH management.

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[1] Institution of Occupational Safety and Health, "The Operating and Financial Review Working Group on Materiality: IOSH response to the OFRWG consultation document on Materiality," September 2003 https://www.iosh.co.uk/~/media/Documents/Books%20and%20resources/Policy%20and%20Consultation/The%20OFR%20working%20group%20on%20materiality.pdf?la=en (accessed October 27 2015).

Even in those industries where OSH is not deemed to be a material issue, sustainability will serve as a platform for gaining greater visibility to OSH-related issues. Improved reporting on key OSH performance indicators, such as those promulgated by the Center for Safety and Health Sustainability (CSHS),[2] will lead to increased transparency that will better enable key stakeholders to evaluate an organization's OSH performance, particularly with regard to human capital.

With sustainability as the impetus, we will witness a dramatic transformation in the way that OSH is viewed and managed by organizations in the coming years. The new focus on human capital will lead to increased recognition by boards of directors that OSH is a material issue that plays a crucial role in establishing the culture, values and ethics of the organization. Governmentally-mandated reporting on sustainability-related information (including OSH data) will increase, adding clarity and a new level of rigor to this process. Demand will increase for transparency and accountability on OSH issues by key stakeholders such as NGOs, consumers, shareholders and employees (particularly of the millennial generation). Thus, it is now essential for OSH professionals to have a good understanding of sustainability: the terminology; the key stakeholders and their varied interests; standards, guidelines, and frameworks; and why sustainability is viewed by the financial investing and accounting communities as a source of value creation for organizations. It is with this goal in mind that the CSHS has developed this report. Designed as a primer for OSH professionals, it provides a comprehensive analysis of current sustainability policies and practices and their implications for the management and oversight of OSH.

"With sustainability as the impetus, we will witness a dramatic transformation in the way that OSH is viewed and managed by organizations in the coming years."

[2] Available in the Appendix.

Transparency: Essential Driver of Sustainability

The goal of the sustainability movement is to encourage organizations to function today with a view to how activities may affect the future – making a positive impact on society, or at least doing no harm to key stakeholders as a result of business operations. To achieve this goal, sustainability advocates need to be able to measure and evaluate the impact that organizations have on their communities, workers, consumers, and other affected constituencies. Thus, the essential driver of sustainability is transparency: encouraging organizations to fully disclose information about their performance on key indicators and ensuring that that information is in a consistent format that allows comparison across organizations.

When the concept of sustainability reporting was pioneered by CERES and the Tellus Institute in 1997, the notion that organizations would voluntarily disclose sustainability-related information seemed far-fetched:[3]

> The whole idea of having an environmental ethic, or measuring your performance above and beyond your legal requirements was considered completely insane. Sustainability was considered to be a shockingly difficult thing that no company would ever voluntarily take on as a goal.

In considering whether to commit resources to sustainability and disclose sustainability information, it was commonly believed that corporations faced a tradeoff between maximizing shareholder value and recognizing a broader obligation to society beyond maximizing profits.[4] This perceived tradeoff was shortsighted in that it did not recognize that much of the information that fell under "sustainability" could directly contribute to shareholder value creation. Thus, while the goal of the CERES initiative was to develop common practices in sustainability reporting, organizations struggled to identify the value of corporate social responsibility and it was viewed as an achievement if any sustainability-related data was voluntarily disclosed. Managers balancing concern with being perceived as "wasting" resources on sustainability initiatives with providing enough sustainability information to satisfy external stakeholders reported solely on those indicators that placed the organization in a favorable light. In such an environment, it was not realistic to attempt to impose strict standards for reporting sustainability information, thus voluntary reporting frameworks and guidelines became the norm. Along these lines, the CERES effort led to the creation of the Global Reporting Initiative, the world's most widely used sustainability reporting framework.

One reason managers were unwilling to fully disclose sustainability information in the early days was because its necessity was not embraced by the financial investment community, which questioned the value in collecting such data even as they expressed concerns about the lack of rigor in reporting requirements. The financial investment community's recognition of the value of collecting material nonfinancial information[5] began to change, however, as the understanding of value and value creation evolved, as well as the very nature of how value was created by an organization. Financial reports traditionally

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[3] Ceres, "Sustainability Reporting: Ceres Catalyzes a Worldwide Movement," March 2014 http://www.ceres.org/about-us/our-history/sustainability-reporting-ceres-catalyzes-a-worldwide-movement (accessed October 20, 2015).

[4] Milton Friedman proposed a guiding principle for business ethics in a New York Times article, provocatively titled: "The social responsibility of business is to increase its profits":

> *… there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays in the rules of the game, which is to say, engages in open and free competition, without deception or fraud.*

Friedman, M. (1970) "The social responsibility of business is to increase its profits." New York Times 32(13): 122–126. Previously published in: Friedman, M. (1962) *Capitalism and freedom*. University of Chicago Press, p. 133.

[5] Which would include environmental, social and governance (ESG) information.

state the value of a business in terms of tangible assets, such as property, plant and equipment and financial resources. In 1975 approximately 83% of corporate value was based on tangible assets. The significant movement from manufacturing to service-based economies since then means that more companies derive their value from intangible assets, such as people, brand and knowledge. As a result, those figures have reversed, with 81% of corporate value attributed to intangible assets in 2009.[6] This brought new relevance to sustainability issues due to their potential impact on such intangible assets as corporate reputation and brand.

"The goal of the sustainability movement is to encourage organizations to function today with a view to how activities may affect the future – making a positive impact on society, or at least doing no harm to key stakeholders as a result of business operations."

The rise of non-financial factors and the need for better metrics

The influence of non-financial factors on the long-term viability of companies is better understood now more than ever before. In 2013 E&Y surveyed more than 160 investors, analysts, and portfolio managers worldwide to gain greater insight into their current practices and future needs with regard to non-financial disclosures. 9 out of 10 respondents stated that *nonfinancial performance* was integral to their investment decision-making at least once in the past 12 months. The report concluded: "This demonstrates that the analysis of nonfinancial issues can no longer be dismissed as a niche approach to investment."[7]

One reason for the increased interest in nonfinancial information is the increase in institutional investors that are oriented toward the long term. 70 percent of the largest 1000 US companies are owned by institutional investors, which include pension funds, university endowments, foundations and sovereign wealth funds. Pension funds own 40 percent of this amount.[8]

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[6] Caroline Biebuyck, "Making the most of integrated reporting," *Economia*, http://economia.icaew.com/finance/november-2014/making-the-most-of-integrated-reporting (accessed October 20, 2015).

[7] Requoted from Douglas Y. Park., "Investor Interest in Nonfinancial Information: What Lawyers Need to Know," American Bar Association, http://www.americanbar.org/publications/blt/2015/01/05_park.html (accessed October 20 2015).

[8] Ibid.

Another factor is the rise of socially responsible investing. At the beginning of 2014 approximately $6.57 trillion in assets under management were engaged in sustainable, responsible and impact investing in the United States. This figure is up 76% from 2012 and represents approximately 18 percent of the $36.8 trillion total assets in management in the United States. From a global perspective, the United Nations Principles for Responsible Investment (UNPRI) had 1260 signatories as of 2014, with $45 trillion in assets under management.[9]

Despite an increased demand for high-quality disclosure of nonfinancial information, a recent report surveying investors found that 79% were frustrated with poor comparability of sustainability reporting among companies within the same industry. Thus, while 93% of the world's largest 250 companies are reporting on their sustainability performance, transparency remains elusive for key stakeholders.

A case in point from an OSH perspective is our analysis conducted in 2013, *Current Practices in Occupational Health & Safety Sustainability Reporting*. The report presents an analysis of the extent to which organizations report OSH sustainability information and the extent to which the information reported lends itself to being compared across organizations. The study involved the collection of corporate social responsibility, sustainability and annual reports from the Corporate Knights' 2011 *Global 100 Most Sustainable Corporations in the World*. Raw data on metrics pertaining to OHS were collected and analyzed with regard to GRI's version 3.1 Labor Aspects (LA) 6-9 (which address occupational health and safety and are unchanged in the G4 version of the GRI framework).

The sustainability reports collected from the *Global 100* reflect:

- High variability in terms and definitions used to report OSH, making it difficult to use reports to compare OSH performance across organizations, for example:
  - o Terms related to "rates of injury," "report-worth injury or incident," "lost day accidents," and "absenteeism."
  - o Formulas used to determine injury rates, occupational disease rates, lost day rates (both workers/employees and contractors) and absentee rates.
- A very low number (<10 corporations) reporting on the required GRI indicators.
- No organization provided a full response to GRI-recommended indicators.
- No organization reported on fatal occupational diseases. The highest relative level of reporting for commonly prescribed metrics was on worker/

[9] PRI signatories commit to six principles that recognize the materiality of ESG issues. Principles for Responsible Investment, "PRI goes from strength-to-strength as signatory assets top US$45 trillion," http://www.unpri.org/whatsnew/pri-goes-from-strength-to-strength-as-signatory-assets-top-us-45-trillion/ (accessed October 20 2015).

employee injury rates. Very few respondents, however, used the formula for calculating injury rates recommended by GRI.

- Compared to that for workers/employees, there was a very low rate of reporting with regard to contract temporary workers' lost day rate and injury rate.
- The "GRI box ticking" phenomenon, where organizations claimed compliance with the GRI reporting framework but in reality did not comply or only partially complied with the GRI guidelines.

The Corporate Knights responded to this report by enhancing their selection criteria and requiring companies with fatal injuries to undergo further review for consideration.

Dissatisfaction with how companies are disclosing information with respect to sustainability issues has led to several initiatives designed to improve the quality, consistency, comparability, industry-specificity, and focus of reporting. The frontrunner among these initiatives is Integrated Reporting.

Integrated Reporting

The recognition that material nonfinancial information is important to investors and analysts gave rise to the concept of integrated reporting, which is reporting on both financial and nonfinancial information in one report. In their book *One Report*, Robert G. Eccles and Michael P. Krzus defined an integrated report as "a single report that combines the financial and narrative information found in a company's annual report with the nonfinancial (such as environmental, social, and governance issues) and narrative information found in a company's 'Corporate Social Responsibility' or 'Sustainability' report."

Over the last few years, the focus of integrated reporting has been on the importance of organizational value creation through the so-called "capitals" or "six capitals." While information is traditionally provided on the "financial" and "manufactured" capitals, integrated reporting also recognizes four more capitals intrinsic to value creation over the short, medium and long run: intellectual, human, social/relationship and natural.

The International Integrated Reporting Council (IIRC), "a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs," and a leading proponent of providing information on the six capitals via integrating reporting, defines the capitals as follows:[10]

- Financial

The pool of economic resources (assets) available to an organization to produce goods or provide services. It is obtained through financing, such as debt, equity or grants, and generated through operations or investments.

- Manufactured

The physical objects and infrastructure owned, leased or controlled by an organization to produce goods or provide services. It includes buildings, equipment, tools and technology.

- Intellectual

The value of an organization's employee knowledge, including intellectual property (patents, copyrights, software, rights and licenses) and

[10] Summaries of IIRC capitals adopted from Jane Gleeson-White, *Six Capitals, or Can Accountants Save the Planet?* New York: 2014, pages 190-193. For a detailed description, please see Integrated Reporting, "IR Background Paper: Capitals" http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Capitals.pdf, pages 5-15 (accessed October 20 2015). Multiple models with varying numbers of capitals have been presented, from as few as four to as many as eight. All include a "social" and/or "human" domain.

"organizational" capital such as tacit knowledge, systems, procedures and protocols. The "owner" of intellectual capital is the organization.

- Human capital

Includes people's skills, abilities, experience, motivation, intelligence, health and productivity; including their motivations to innovate, alignment with and support for an organization's governance framework, risk management approach and values; ability to understand, develop and implement an organization's strategy; and loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate. The "owner" of human capital is the individual person.

- Social and relationship capital

Includes institutions and relationships within and between communities, stakeholder groups and other networks; shared norms, common values and behavior; trust the organization has fostered, brand and reputation; social license to operate and the ability to share information to enhance individual and collective well-being. The "owners" of social and relationship capital are networks of humans.

- Natural capital

Includes all renewable and nonrenewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes air, water, land, minerals and forests as well as biodiversity and eco-system health.

Value creation

Value creation is the lifeblood of any business entity. Recognized value in the business's goods and services attracts customers and builds a loyal following. Creating shareholder value by increasing earnings, dividends, and stock price attracts investment capital; while creating value for employees attracts and retains talented people. But understanding and measuring the sources of value for an organization is challenging. Human capital, for one, is not easily assigned a market value.

"An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers."

Yet senior management teams and investors need greater clarity about how the business's resources and relationships come together to create value for their stakeholders with the long view. This is the fundamental purpose of integrated reporting. According to IIRC:[11]

> An integrated report explains how an organization creates value over time. Value creation is not created by or within an organization alone. It is:
>
> o Influenced by the external environment
>
> o Created through relationships with stakeholders
>
> o Dependent on various resources

The IIRC Framework, established in December 2013, provides companies with guidance on how to start thinking and reporting in an "integrated" way. The Framework provides Guiding Principles and Content Elements that direct the overall content of an integrated report and explains fundamental underpinning concepts. It does not, however, go into being overly prescriptive with

[11] "The International IR Framework," Integrated Reporting, page 10. http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf (accessed October 20 2015).

key performance indicators, or other measurement methods.

While the focus of integrated reporting is on the capital market, IIRC believes that "an integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers."[12]

Of particular interest to OSH professionals are IIRC's additions of human and social/relationship capitals as aspects of investor decision making. With regard to human capital, increasing numbers of organizations are promoting and commenting on human capital reporting, which focuses on information about the workforce. Businesses are increasingly recognizing the importance of a skilled, engaged and productive workforce. Effectively managing social capital can assist with recruiting and retaining employees. An annual survey conducted in 2014 of over 37,000 employers in 42 countries found that 36% of employers found it difficult to fill jobs, with greater difficulty every year. 54% reported that this has a significant impact on their ability to meet client needs. Reputation is a key factor in attracting and recruiting talent and can have significant financial impact. Engagement is also a factor – one study found a spread of more than 5% in operating margin between companies with "low" versus "high" employee engagement.[13] Increased demands for transparency and improved performance on human capital-related issues will lead to increased demands for transparency and improved performance on OSH issues.

Another one of the six capitals that has particular relevance to OSH professionals is social and relationship capital. As the name suggests the focus of the social and relationship capital is on rela-

[12] Ibid, p. 8.

[13] Accounting for Sustainability, "Natural and Social Capital Accounting: An introduction for finance teams," page 7 https://www.accountingforsustainability.org/wp-content/uploads/2015/03/A4S-natural-and-social-capital-accounting-Mar15v2.pdf (accessed October 20 2015).

tionships, particularly those with external stakeholders. According to IIRC, "aspects of social and relationship capital in a business context relevant to integrated reporting include: the strength/efficacy of supply chain relationships (e.g., establishing quality expectations, just-in-time delivery systems, and recycling programmes), community acceptance, government relations, relationships with competitors (e.g., coming together to develop industry standards), and customer loyalty."[14]

In May 2015 the Corporate Reporting Dialogue published "The Landscape Map,"[15] showing the distinct purposes of the various frameworks and standards and mapping their different "scope" and "content" domains to the different capitals and content elements in the International Framework. The Map identifies three standards or frameworks that have full coverage of the human capital and social and relationship capital: GRI G4 Sustainability Reporting Guidelines and G4 Sector Disclosures, ISO 26000 *Guidance on Social Responsibility*, and SASB standards.

The Global Reporting Initiative (GRI)

GRI is an independent organization that produces the world's most widely used sustainability reporting framework. Over 80 percent of the world's largest 250 companies refer to the GRI Guidelines when issuing a corporate social responsibility or sustainability report. In addition, several countries have a formal reference to GRI in their governmental corporate responsibility guidance documents or policies, including Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Sweden, the United States, and Canada.[16]

The GRI framework is designed for use by all organizations, regardless of size, sector or location.

In November 2014 GRI announced the formation of a new governance structure, the Global Sustainability Standards Board, which will develop and approve the Sustainability Reporting Standards.

According to GRI, for each indicator it provides relevance, compilation, definitions, documentation sources and references. GRI OSH-related indicators can be found in Appendix II.

ISO 26000 Guidance on Social Responsibility

The *International Organization for Standardization (ISO) 26000:2010 Guidance on Social Responsibility* is intended for use by organizations of all types, sizes and industry to assist them in operating in a socially responsible manner. It is a guidance document rather than a standard and therefore cannot be certified-to like the typical ISO standard.

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14 Integrated Reporting, "Capitals: Background paper for <IR>," March 2013, page 10 http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Capitals.pdf (accessed October 20 2015).

15 Corporate Reporting Dialogue, "The Landscape Map," http://corporatereportingdialogue.com/landscape-map/ (accessed October 20 2015).

16 Global Reporting Initiative, "G4 Online – Occupational Health and Safety," https://g4.globalreporting.org/specific-standard-disclosures/social/labor-practices-and-decent-work/occupational-health-and-safety/Pages/default.aspx (accessed October 20 2015).

ISO views ISO 26000 as compatible with the IIRC Framework:[17]

> Whereas the IIRC provides an overarching framework to support integrated thinking and reporting, ISO 26000 provides detailed guidance on how the thinking aspect, in particular, can develop within an organization. Those looking to start their journey would be advised to consider using ISO 26000 as a complement to the International Framework. Those already using ISO 26000 will recognize this as a useful foundation toward creating effective integrated reports.

ISO 26000 provides guidance on OSH issues as part of labor practices, one of seven core subjects they identified as comprising social responsibility. ISO 26000 Section 6.4.6 *Health and safety at work* addresses "the promotion and maintenance of the highest degree of physical, mental and social well-being of workers and prevention of harm to health caused by working conditions." It also relates to protecting workers from health risks and adapting the occupational environment to the physiological and psychological needs of workers. In particular, Section 6.4.6.2 describes related actions and expectations that organizations should undertake, including developing an OSH policy; applying the hierarchy of controls; analyzing and controlling risks, including risks to more vulnerable workers; communicating with and training workers on safe work practices and their OSH related rights; engaging workers in the OSH program, including hazard identification and control and incidents and accidents investigations; reporting, recording and investigating incidents and accidents; and providing necessary safety equipment.

SASB

SASB is an independent 501(c)3 nonprofit organization in the United States that develops and disseminates industry-specific sustainability accounting standards for use by public corporations in disclosing material information to relevant stakeholders. It is important to note that SASB develops standards which align with typical accounting practices – rather than providing guidelines, which are more open to interpretation. In this respect, SASB is following the model of the Financial Accounting Standards Board (FASB), a non-profit organization that the United States Securities and Exchange Commission has designated as responsible for setting accounting standards for public companies.

To date, SASB has deemed OSH be be material in 22 industries.

SASB encourages organizations to disclose material non-financial information in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of the Securities and Exchange Commission (SEC) Form 10-K:[18]

> Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the MD&A section of Form 10-K 'any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant

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[17] ISO, "ISO 26000 and the International Integrated Reporting <IR> Framework briefing summary," 2015 http://www.iso.org/iso/iso_26000_and_ir_international_integrated_reporting_en_-_lr.pdf (accessed November 2 2015).

[18] SASB, "SASB Standards Navigatory Beta," https://navigator.sasb.org/reference-material/glossary (accessed October 20 2015).

knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.'

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[19]

By utilizing an existing financial reporting vehicle, SASB provides a direct and immediate way for U.S. corporations to disclose sustainability-related information. While SASB's focus is on SEC reporting, they do envision that their standards will be used in identifying the material nonfinancial information that goes into the integrated report. According to SASB, their standards development process:[20]

> …includes evidence-based research, multi-stakeholder working groups, a 90-day public comment period, and a review by an independent standards council. The 1,890 participants in SASB's working groups have included professionals from publicly traded companies with $21 trillion market capitalization and investment firms with $9.5 trillion in assets under management.

Through the beginning of 2016, SASB is developing sustainability accounting standards for more than 80 industries in 10 sectors. As of June 30, 2015, SASB has issued standards for 57 industries in eight sectors—Health Care, Financials, Technology and Communications, Nonrenewable Resources, Transportation, Services, Resources Transformation, and Consumption. Of these 57 industries, some aspect of OSH was considered to be a material issue in 22 industries: Biotechnology; Pharmaceuticals; Electronic Manufacturing Services & Original Design Manufacturing; Semiconductors; Oil & Gas – Exploration & Production; Oil & Gas – Midstream; Oil & Gas – Refining & Marketing; Oil & Gas – Services; Coal Operations; Iron & Steel Producers; Metals & Mining; Construction Materials; Air Freight & Logistics; Marine Transportation; Rail Transportation; Road Transportation; Leisure Facilities; Cruise Lines; Chemicals; Industrial Machinery & Goods; Agricultural Products; and Meat, Poultry & Dairy.

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[19] Ibid.

[20] SASB, "Introduction to SASB: For Lawyers," October 2, 2014 http://www.sasb.org/wp-content/uploads/2014/10/Intro-to-SASB-for-Lawyers-10-2-2014.pdf (accessed November 2 2015).

Materiality

Voluntary reporting

Groundbreaking new research from Harvard Business School offers additional insight into whether investing in sustainability has a positive impact on corporate financial performance and is thus value-enhancing for shareholders. Harvard Business School released a working paper in March 2015 entitled *Corporate Sustainability: First Evidence on Materiality*,[21] reporting that "firms with strong performance on material topics outperform firms with poor performance on material topics, consistent with material investments being shareholder value-enhancing"[22] (emphasis theirs). The researchers analyzed 2,307 firms for the years 1992-2012 using the SASB guidance on materiality.

"Firms with strong performance on material topics outperform firms with poor performance on material topics, consistent with material investments being shareholder value-enhancing"

This research is significant for several reasons. First, by focusing on the difference between sustainability issues that are material for a company versus all other less material sustainability issues (which they termed "immaterial") it provides an explanation for the mixed findings in the previous research attempting to link sustainability and corporate performance. Thus, the research demonstrates that not all corporate investments in sustainability have the same implications for stock prices; "investments in immaterial issues are less likely than investments in material issues to be value-enhancing."[23]

Secondly, the research offers support for the SASB and IIRC approach to identifying material sustainability issues. Both the SASB and IIRC definitions view the question of materiality from the perspective of investors – with a focus on value creation. SASB uses the U.S. Supreme Court definition, which considers information material if there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available" (emphasis added) [TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976)].[24] Similarly, the IIRC definition looks at materiality from the investors' viewpoint: an item is material "if it is of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organization's ability to create value over the short, medium and long term."[25]

GRI, in contrast, states that "Materiality for sustainability reporting is not limited only to those aspects that have a significant financial impact on the organization."[26] GRI defines materiality as information that "may reasonably be considered important for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders." The GRI focus is on a much broader range of stakeholders than that of SASB and IIRC. GRI acknowledges that not all material issues are of equal importance but recommend broad stakeholder reporting and a prioritization of material issues within the report.

With these differing views on the appropriate

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[21] Mozaffar Khan, George Serafeim, and Aaron Yoon, "Corporate Sustainability: First Evidence on Materiality," Working Paper 15-073 (Harvard Business School), http://www.hbs.edu/faculty/Publication%20Files/15-073_8a7e13e5-68c5-4cc3-a9a0-a132bbef3bc7.pdf (accessed October 20 2015).

[22] SASB, "Why is it important?" http://www.sasb.org/materiality/important/ (accessed October 20 2015).

[23] Ibid, p. 2.

[24] Ibid.

[25] Integrated Reporting, "Materiality: Background Paper for <IR>," March 2013, Page 2. http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Materiality.pdf (accessed October 20 2015).

[26] G4 Online, "Materiality," https://g4.globalreporting.org/how-you-should-report/reporting-principles/principles-for-defining-report-content/materiality/Pages/default.aspx (accessed November 2 2015).

scope of reporting, the sustainability movement has reached a critical crossroad. The issue presented is whether organizations should take a new approach to sustainability by focusing their efforts on improving performance on a narrower range of sustainability-related matters. The growing concern is "that many corporations, with the best of intentions, have acquiesced to stakeholder and sustainability rater pressures to aggregate broad sustainability measures of questionable material value."[27]

For example, GE reported that in 2014 they:

> Developed responses to more than 650 individual questions from ratings groups. The process took several months and involved over 75 people across the organization, *with virtually no value* to our customers or shareholders, and even less to the environment. Having too many competing rating groups diverts resources from activities that can truly impact sustainability.[28]

Efforts to address the interests and concerns of all relevant stakeholders by reporting on enormous amounts of immaterial sustainability-related information may actually detract from the organization's value creation efforts. Of interest, the *First Evidence* researchers found that only 20 percent of the sustainability data they reviewed for the study was material according to SASB standards.[29]

Identifying material information for disclosure to investors and analysts will be of growing importance to senior management and boards of directors because it is necessary to maximize the effectiveness of their reporting to the capital markets. This process should also assist management teams in integrating sustainability into their business strategies, processes and decisions, and making their sustainability related efforts more efficient.

Toward that end, the UN Global Compact, which

bills itself as the world's largest voluntary corporate sustainability initiative, recently launched a new program designed "to accelerate recognition by corporate leaders of the material impacts of non-financial issues, and integrate sustainability into business strategy and operations."[30] Organized in two sessions on the "Materiality of Sustainability" and "The Role of the Board," the *Global Compact Board Programme* provides facilitators for boards of directors' discussions so they can "effectively oversee and drive a strategic approach to corporate sustainability, and to respond to the interests of all their key stakeholders while protecting and creating financial value." The program was introduced in November of 2014 to all of the 8000 corporate signatories in 145 countries, which have committed to aligning their business strategies and operations with *The Ten Principles of the UN Global Compact* on human rights, labor, environment and anti-corruption.

With a similar aim, The Prince's Accounting for Sustainability (A4S) Project Chief Financial Officer Leadership Network has published four

[27] Bob Eccles and Tim Youmans, "In this corner, DJSI; and in this corner, materiality. Ding!" http://www.materialitytracker.net/user-views/ (accessed October 20 2015).

[28] Ibid.

[29] Khan, Serafeim and Yoon, "First Evidence."

[30] Principles for Responsible Management Education, "New Programme Puts Sustainability on the Agenda for Boards of Directors," November 20 2014, http://www.unprme.org/news/index.php?newsid=333#.VecxviVVhBc (accessed October 20 2015).

guides to assist the finance and accounting communities in integrating sustainability into their business processes and decisions. The names and a brief description of the guides taken from the A4S website are as follows:[31]

- *CAPEX: a practical guide to embedding sustainability into capital investment appraisal*

  Outlines how businesses can adapt their existing capital investment appraisal processes in a pragmatic and systemic manner to integrate social and environmental issues.

- *Enhancing investor engagement: a practical guide for investor relations teams to engage on the drivers of sustainable value*

  Assists investor relations teams as they seek to engage investors on the link between sustainable business models and the creation of shareholder value.

- *Managing future uncertainty: an introduction to integrating risks resulting from macro sustainability trends into business decision-making*

  Introduces finance and risk professionals to the potential business impacts from macro sustainability trends.

- *Natural and social capital accounting: an introduction for finance teams*

  Helps finance teams increase their understanding of the growing movement around natural and social capital accounting.

Reporting required by regulation

While the guidance on materiality from organizations such as SASB, IIRC, and GRI is voluntary, there has been an increase in governmental regulatory activity on the topic. Several examples can be found in the United Kingdom, where there is a framework of legislation, regulation and best practice standards that has evolved to promote effective corporate governance and transparency with regard to a company's business and the principal risks and uncertainties facing the company. The framework includes The *UK Corporate Governance Code*,[32] the *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013)*[33] and *The UK Stewardship Code*.[34] As it relates to issue of materiality, this framework creates a system of checks and balances to ensure that shareholders have the information necessary to assess a company.

The *UK Corporate Governance Code* identifies the principles for effective board practice, such as accountability, transparency, probity and sustainable success. It requires the company's directors to state that they consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable. It also requires that they provide the information necessary for shareholders to assess the company's position and performance, business model (an explanation of the basis on which the company generates or preserves value over the longer term) and the strategy for delivering the objectives of the company.

The *Companies Act 2006 (Strategic Report and Directors' Report)* Regulations 2013 requires the directors of a company to prepare a strategic report for each financial year of the company. The strategic report must contain a fair review of the company's business and a description of the principal risks and uncertainties facing the company. The regulation requires, where appropriate, analysis using key performance indicators, including information relating to environmental and employee matters. In the case of companies whose shares are listed on the stock exchange

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[31] More information available at http://www.accountingforsustainability.org/ (accessed October 20 2015).

[32] Available at https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf (accessed November 2 2015).

[33] Available at http://www.legislation.gov.uk/uksi/2013/1970/pdfs/uksi_20131970_en.pdf (accessed November 2 2015)

[34] Available at https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Stewardship-Code-September-2012.pdf (accessed November 2 2015).

(i.e., quoted companies) the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include the main trends and factors likely to affect the future development. It must also include the performance and position of the company's business, information about environmental matters (including the impact of the company's business on the environment) and the company's employees, social, community and human rights issues (including information about any policies of the company in relation to those matters and the effectiveness of those policies).

The UK Stewardship Code sets out seven principles for effective stewardship by investors. The stated purpose of the Code is to assist institutional investors in exercising their stewardship responsibilities such as monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. The Code recognizes that investors play an important role in holding boards of directors accountable for the fulfilment of their responsibilities. A relevant example from a materiality and value creation perspective is found in the guidance section Principle 3: "keep abreast of developments, both internal and external to the company, that drive the company's value and risks," and "consider the quality of the company's reporting."

The UK has also set rules for government procurement and acquisition. The *Public Service (Social Value) Act 2012* requires "public authorities to have regard to economic, social and environmental well-being in connection with public services contract; and for connected purposes."[35] In procurement, the government must consider "how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area."

The European Union has also issued regulation requiring disclosure on materiality, particularly the *Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups*, which amends *Accounting Directive 2013/34/EU*.[36] The Directive requires public-interest entities with more than 500 employees to include a non-financial statement in the management report with "adequate information in relation to matters that stand out as being most likely to bring about the materialisation of principal risks of severe impacts, along with those that have already materialised." The Directive defines "material" as "the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking." The Directive further states that "The risks of adverse impact may stem from the undertaking's own activities or may be linked to its operations, and, where relevant and proportionate, its products, services and business relationships, including its supply and subcontracting chains." Companies may rely on national, European, or international guidelines in determining what information to provide, such as UN Global Compact, ISO 26000 or GRI.

Not all governmental regulatory activity is at the national level. For example, in 2015 in Ontario, Canada the Ontario Pension Benefits Act was amended to require that pension plan's statement of investment policies and procedures to "state whether environmental, social, and governance (ESG) factors are incorporated into the plan's investment policies and procedures."[37]

Finally, a resource that aggregates reporting

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[35] Chapter 3, "Public Services (Social Value) Act 2012" http://www.legislation.gov.uk/ukpga/2012/3/enacted (accessed October 30 2015)

[36] "Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings," http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095 (accessed October 20 2015).

[37] "Rules concerning the Statement of Investment Policies and Procedures (SIPP)," Updated July 2015, https://www.fsco.gov.on.ca/en/pensions/legislative/Pages/sipp.aspx (accessed November 3 2015)

requirements is available from the Initiative for Responsible Investment at the Hauser Institute for Civil Society, which has identified social reporting requirements by regulatory bodies or stock exchanges in 40 countries.[38]

Monitoring Performance and Measuring Social Impact

The recognition that sustainability information is important to organizational strategic and investment decision making processes has led to an increased interest in identifying new and better ways of measuring social impact. Improved quantification of sustainability data will enable management teams to better understand the risks and opportunities of particular decisions so they can make informed evaluations of strategic options and tradeoffs and justify their decisions to key stakeholders. Increased focus on linking key performance indicators (KPIs) to outcomes and impacts will allow key stakeholders to better evaluate the value of an organization's social efforts. One example is the KPMG True Value assessment tool, which helps business understand the value it creates and reduces for society is likely to affect shareholder value, including the specific measurement of OSH within the pillar of human capital.[39] This approach is one which can be incorporated within the existing organizational measurement tools, especially financial.

> "Improved quantification of sustainability data will enable management teams to better understand the risks and opportunities of particular decisions so they can make informed evaluations of strategic options and tradeoffs and justify their decisions to key stakeholders."

However, assigning a value or cost to organizations' social efforts can be a complex, time consuming and expensive process. There are no generally accepted methods or standards for measuring social impact. Multiple parties may be affected in different ways. Determining impact may require analysis of extensive data over an extended period of time.

A case in point is a recent initiative to develop a methodology to assess social impact at the product level by the Roundtable for Product Social Metrics:[40]

> In contrast to the range of methodologies used to assess a product's environmental impact, there is still a scarcity of tools and metrics to estimate the social impact of these products. A cross-industry social impact assessment method for products has not existed, even though many companies have implemented important social initiatives across their supply chains and operations.
>
> Attempts to develop metrics for social impacts have often resulted in instruments that can be applied to a company as a whole, but are not easily translatable for the products

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[38] Initiative for Responsible Investment, "Global CSR Disclosure," Harvard Kennedy School, http://hausercenter.org/iri/about/global-csr-disclosure-requirements (accessed October 20 2015).

[39] KPMG, "Introducing KPMG True Value." 2015. https://www.kpmg.com/Global/en/topics/climate-change-sustainability-services/Documents/introduction-kpmg-values.pdf (accessed October 20 2015).

[40] Jacobine Das Gupta and Charles Duclaux, "New tool aims to help companies measure social impact of products." *The Guardian,* October 28th, 2014 http://www.theguardian.com/sustainable-business/2014/oct/28/new-tool-measure-social-impact-products (accessed October 20 2015).

> within an industrial context and the daily practices of product developers and marketers. The main reason for this is that measurements of how a product affects society and individuals are difficult to quantify. For example, to prove that a product contributes to the wellbeing of end-users, a company would need consumer research to assess their increase in perceived wellbeing when using the product.

The Roundtable for Product Social Metrics initiative led to the development of the *Handbook for Product Assessment*, which is billed as "the first practical methodology tested and accepted by a group of major businesses for assessing a product's social impact throughout its lifecycle."[41] According to the *Handbook*:[42]

> Transparency at product level presents numerous opportunities, allowing companies to identify and improve the most pressing issues, report in a robust and meaningful manner, and drive new product innovation. Perhaps most importantly, given the increasing stakeholder expectations on corporate responsibility, product social assessment provides the opportunity to build brand equity and significantly enhance company reputation.

The *Handbook* is an example of a growing trend of shifting the focus from outputs to outcomes when reporting on the sustainability performance of an organization. While outputs are best described as the goods, services, profits and revenues of a business (the what), outcomes include meanings, relationships and differences (the why).[43] For example, Unilever has demonstrated that by targeting low income consumers in the developing world by selling smaller-sized units of Lifebuoy soap and conducting handwashing campaigns, childhood diarrhea cases have been

reduced by 25%. Their goal was to increase the social impact of their product.

Several initiatives aim to develop new ways of measuring outcomes/social impact, including *Tools and Resources for Assessing Social Impact* (TRASI), a project of the Foundation Center, developed in partnership with McKinsey, and IDinsight, whose goal is to "create more practical and affordable ways to apply rigorous evaluation methods to reach beyond output metrics and measure outcomes and impact."[44] From a socially responsible investment perspective there is Impact Reporting and Investment Standards (IRIS) which is a "catalog of generally-accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry."[45] Another example is Inspiring Impact, a UK-wide collaborative program that works with the charitable sector to help organizations understand how and what to measure.[46]

These initiatives are important as improved data on social impact will facilitate the process of linking social ventures with investors. An example

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41 Jacobine Das Gupta and Charles Duclaux, "New tool measures social impact products," The Guardian http://www.theguardian.com/sustainable-business/2014/oct/28/new-tool-measure-social-impact-products (accessed October 30 2015).

42 PRé Sustainability, "Handbook for Product Social Impact Assessment," September 2014, http://product-social-impact-assessment.com/wp-content/uploads/2014/08/Handbook-for-Product-Social-Impact-Assessment.pdf (accessed October 20 2015).

43 Deborah Mills-Scofield, "It's Not Just Semantics: Managing Outcomes Vs. Outputs," Harvard Business Review, November 26 2012 https://hbr.org/2012/11/its-not-just-semantics-managing-outcomes (accessed October 20 2015).

44 Mike McCreless, "When measuring social impact, we need to move beyond marketing," Forbes http://www.forbes.com/sites/skoll-worldforum/2013/07/15/when-measuring-social-impact-we-need-to-move-beyond-counting/ (accessed October 30 2015).

45 Frequently Asked Questions, IRIS https://iris.thegiin.org/about/faq (accessed October 30 2015).

46 Inspiring Impact, http://inspiringimpact.org/ (accessed October 30 2015).

of this linkage is the Social Venture Exchange (SVX), launched in Canada in 2013, one of the world's first social stock exchanges. SVX is a private investment platform which seeks to connect impact ventures funds and accredited impact investors.[47]

The standardization of information is another relevant trend. A wide variety of indicators are used internationally, meaning the use of indicators in making international comparisons is limited and data quality is often insufficient. Including (and especially) in OSH, indicators are based on different national systems of data collection and aggregation. Opinions on which indicators should be used vary significantly between stakeholders and OSH specialists, creating a problem for those looking for comparable statistics.

Multiple projects are attempting to fix this problem. The Center for Safety and Health Sustainability has developed a set of recommended KPIs with the intent to boost standardization internationally. The CSHS indicators, developed through global collaboration among some of the world's leading health and safety professional bodies, are a first step towards standardizing OSH reporting. SASB have also developed indicators, with a view toward standardization by industry and developing relevant KPIs for issues they find to be material. Finally, there is a movement to reduce the number of KPIs that relate to nonmaterial issues. This will be a challenge for management teams as they seek to balance the interests of key stakeholders and identify tradeoffs.

Preparing for the Move to Integrated Reporting: Recommendations for OSH Professionals

Leading global accounting organizations and senior business leaders are widely supportive of integrated reporting. A 2014 PWC survey of 1322 CEOs from 77 countries revealed that 74% find measuring and reporting the total impact of their activities across ESG and fiscal/economic dimensions contributes to their long term success.[48] Thus, while corporate adoption of integrated reporting is in its early stages, it is expected that it will become a standard business practice.

The following recommendations provide OSH professionals with preparing for integrated reporting and other organizational changes that may occur as a result of integrated reporting.

Develop a new financial literacy

OSH professionals need to have an understanding of the transformation taking place in the corporate world regarding accounting for nonfinancial information. There is new terminology and a new focus on concepts such as materiality and value creation. At a minimum, the OSH professional needs to:

1. Understand how an organization create value for its key stakeholders via the six capitals
2. Know the public reporting obligations of their organization and what business and financial information is regularly disclosed to the public

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[47] Investors "lacked the expertise and resources required to identify social ventures and make appropriate investments," from David Floyd, "Social Stock Exchange – the rise of international competitors," *The Guardian*, October 24 2013 http://www.theguardian.com/social-enterprise-network/2013/oct/24/canadian-social-stock-exchange (accessed November 3 2015).

[48] PWC, "18th Annual CEO Survey: A marketplace without boundaries? Responding to disruption," January 2015 http://read.pwc.com/i/448541-pwcs-18th-annual-global-ceo-survey (accessed October 30 2015).

"OSH professionals should seek to gain a broader perspective on the potential human capital-related issues and challenges facing their organizations."

3. Understand the concept of integrated reporting
4. Be able to define materiality as it relates to financial reporting
5. Understand the difference between outputs and outcomes in reporting on social impact performance

Review organization's human capital activities to identify new value creation and risk mitigation opportunities

As a starting point OSH professionals should seek to gain a broader perspective on the potential human capital-related issues and challenges facing their organizations. An example is Deloitte's report *Global Human Capital Trends 2015: Leading in the new world of work* identifies the following issues that may be relevant to OSH:[49]

- *Hourly, contingent, and contract workforce:* One of the trends identified was a greater use of hourly, contingent, and contract workers. The report concludes that "This trend high lights the need to develop better processes, policies, and tools to source, evaluate, and reward talent that exists outside of traditional corporate and organizational balance sheets." This approach is more inclusive of workers who traditionally were not accounted for in the OHS metrics of many organizations.
- *Organizational culture and employee engagement:* Another trend identified in the report was that "Organizations are recognizing the need to focus on culture and dramatically im prove employee engagement as they face a looming crisis in engagement and retention." From a value creation perspective, the report states "highly engaged companies can hire more easily, deliver stronger customer service, have the lowest voluntary turnover rates, and be more profitable over the long run."

The report makes a case for improved analytics in measuring and monitoring culture:

> Although culture and engagement play such a critical role in business performance, most organizations do a poor job of measuring their achievements or shortcomings. Historically, companies have relied on annual engagement surveys, often costing hundreds of thousands of dollars and taking months to deploy. And very few companies have a process or tools to measure culture and learn where it is strong, weak, or inconsistent. At a time when corporate cultures are being continuously debated, shaped, and redefined on social networks, the once-a-year survey is perilously obsolete. Fortunately, new tools are emerging to provide organizations with real-time sentiment and

[49] Available at http://www2.deloitte.com/us/en/pages/human-capital/articles/introduction-human-capital-trends.html. 2015 (Accessed October 20 2015).

employee feedback. A new breed of vendors offers pulse survey tools, employee sentiment management tools, culture assessment tools, and real-time employee monitoring tools to help leaders and supervisors rapidly assess when engagement is high and when problems are arising. These new tools make it possible for organizations to monitor employee sentiment with the same level of rigor and speed as they measure customer sentiment.

Additional relevant research relates to younger employees. The Cone Millennial Cause group surveyed a sample of 1800 young adults, finding that 80% wanted to work for a company they thought cared about its impact on and contributions to society while more than half reported they would refuse to work for a corporation they view as irresponsible. Millennials will be 50% of the workforce by 2020.[50]

Next, the range of ways in which the OSH decisions and activities can affect workers or the working environment should be examined. Identify any gaps (e.g. training for contingent workers), opportunities for improvement (e.g. improving culture assessment tools), and consider whether there is an opportunity to work with management or other corporate functions to take a more integrated approach to managing human capital.

A new way of integrated thinking is one of the anticipated benefits of integrated reporting. Integrated thinking is defined by the IIRC as "the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects."[51] An example is the relationship between human resources and OSH professionals in organizations. Human resource goals and objectives overlap significantly with OSH function with regard to the health, safety and productivity of employees and the financial wellbeing and image of the organization. Yet, despite these commonalities in purpose, there is often a lack of understanding of how to best leverage this relationship to achieve shared goals and objectives. It is often the case that the "relationship" is developed when the two parties are forced to the table together as a result of a particular incident, accident, regulatory compliance initiative, or budgetary crisis. Strategic planning between these functions is often fragmented and communications may follow a "need to know" approach. This lack of integrated thinking and decision making results in missed opportunities to change employee behaviors, influence managers, share tools and technology, improve legal and regulatory compliance, boost employee morale and, ultimately, reduce the organization's costs.

Progressive companies use sustainability as a strategy to engage employees and build employee loyalty, according to the report *Integrating Sustainability Into Brand Strategy: A comparative study of global consumer-facing industry*.[52] Some of the employee engagement tactics used by these companies include embedding sustainability messaging in employee recruitment communications, providing paid days to volunteer in the community, offering health & safety and professional development training, organizing giving programs for corporate charities or donation matching and instituting awards and recognition programs. The OSH professional should consider ways that OSH can be integrated into these types of initiatives.

Ultimately, the new focus on human capital will provide OSH professionals an effective platform for linking OSH to operational excellence – im-

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50 2020 Workplace Blog, "7 Surprising Ways to Motivate Millennial Workers," March 2013 http://2020workplace.com/blog/?p=988 (accessed October 20 2015).

51 Integrated Reporting, "The International <IR> Framework," December 2013, page 2 http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf (accessed October 20 2015).

52 Strandberg Consulting, "Integrating Sustainability Into Brand Strategy: A comparative study of global consumer-facing industry leaders," June 2015 http://corostrandberg.com/publications/corporate-social-responsibility/integrating-sustainability-into-brand-strategy-a-comparative-study-of-global-consumer-facing-industry-leaders (accessed October 20 2015).

proving productivity and efficiency, increasing quality, reducing costs, minimizing the likelihood of catastrophic events – and in so doing, creating highly sustainable organizations with strengthened core ethical values, increased employee morale and a more positive workplace culture.

Review supply chain operations to better understand potential OSH-related vulnerabilities and determine opportunities to strengthen relationships and mitigate risks

In recent years there has been increased publicity around working conditions in factories that supply to foreign corporations. In Pakistan, workers trapped behind locked doors leapt to their deaths to escape a factory fire. A building collapsed in Bangladesh, causing the deaths of over 1100 garment workers and leading to the filing of formal murder charges against 41 people. News was circulated that suicide nets were installed at the dormitories for workers of an electronics manufacturer in China. 50,000 Bangladeshi garment workers went on strike over "inhuman" wages (about $38 a month).

From a value creation and risk mitigation perspective, trouble in supply chain operations have the potential to cause major business interruptions and have a significant impact on a company's brand and reputation. "When a major organization's supplier or supplier's partner is exposed for unsafe or unethical practices, it's typically the outsourcing organization that faces consumer backlash."[53]

Consumers are showing an increased interest in supporting socially responsible companies. 55% of the respondents in Nielsen's 2014 global corporate social responsibility survey indicated that they were willing to pay extra for products and services from companies that are committed to positive social and environmental impact, an increase of 10% since 2011.[54]

In addition, several human rights initiatives are bringing new focus on supply chain management and performance. One example is the trend toward adopting "modern slavery" regulations. Modern slavery is a broad term used to cover offences of slavery, servitude, forced or compulsory labor and human trafficking. In 2010, the state of California introduced the *California Transparency in Supply Chains Act* (the "California Act"), which requires retail and manufacturing businesses with worldwide annual gross receipts over $100 million doing a certain amount of their business in California to disclose their efforts to eradicate slavery from their supply chains.

> "55% of the respondents in Nielsen's 2014 global corporate social responsibility survey indicated that they were willing to pay extra for products and services from companies that are committed to positive social and environmental impact."

In the UK, the Modern Slavery Act 2015 includes a section on transparency in supply chains. All businesses over a certain size (total annual turnover of £36 million or above) will be required to prepare a "slavery and human trafficking statement" for each financial year, stating the steps taken to prevent slavery and human trafficking in any of its supply chains or in any part of its own business (or else, stating that no such steps have been taken). The statement should include a brief description of an organization's business model and supply chain relationships, the business's policies relating to modern slavery, including due diligence and appropriate performance indicators.[55]

The *UN Guiding Principles Reporting Framework* also provides focus on human rights in the

[53] Zurich American Insurance Corporation, "Safe Supply Chains Help Produce Sustainable Businesses," 2012 http://www.sustainable-plant.com/assets/Sustainable-Plant/White-Papers/Supply-Chain-Safety-White-Paper.pdf (accessed October 20 2015).

[54] Nielsen Company, "Doing Well by Doing Good," 2014 http://www.nielsen.com/content/dam/nielsenglobal/apac/docs/reports/2014/Nielsen-Global-Corporate-Social-Responsibility-Report-June-2014.pdf (accessed October 20 2015).

[55] "Transparency in Supply Chains etc.: A practical guide," Guidance issued under section 54(9) of the Modern Slavery Act 2015, p 11 and 33. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/471996/Transparency_in_Supply_Chains_etc__A_practical_guide__final_.pdf (accessed November 5 2015).

supply chain. It is the first comprehensive guidance for companies to report on how they meet their responsibility to respect human rights. The Reporting Framework was launched in February 2015 and a related framework for assurance of that reporting is currently under development.[56]

The *Corporate Human Rights Benchmark* is another initiative seeking to improve human rights performance.[57] Managed by the Business and Human Rights Resource Centre, this Benchmark will rank the top 500 globally listed companies on their human rights policy, process and performance. The Benchmark will use publicly available information on companies, which would include information reported using the UN Guiding Principles Reporting Framework. Based on the information included in the public consultation conducted by the Business and Human Rights Resource Centre, OSH performance indicators such as health and safety fatalities, lost days and injury rates will be figured into the Benchmark ratings. However, IOSH has recommended that the Benchmark be strengthened as it relates to additional OSH risks, particularly those related to exposure of workers to health risks such as silicosis.[58]

The difficulties of managing issues related to the supply chain are well recognized. In the 2013 UN Global Corporate Sustainability Report, 54% of the large companies responding ranked "extending corporate sustainability strategies through

the supply chain" as the number one challenge "slowing or blocking advancement to the next level of sustainability performance." The problem is especially acute for large companies that have thousands of suppliers, including subcontractors and sub-subcontractors.[59]

Thus, extending sustainability concepts to the supply chain is a complex process that may involve changes in contractual terms and conditions, new audit protocols, the termination of relationships with current vendors and other issues beyond the control of the OSH professional. Progress toward implementing sustainability in the supply chain requires the commitment of senior management and the involvement of a cross-functional supply chain team.

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56 "UN Guiding Principles Reporting Framework," http://www.ungpreporting.org/ (accessed October 30 2015).

57 Business & Human Rights Resource Centre, "Corporate Human Rights Benchmark," http://business-humanrights.org/en/corporate-human-rights-benchmark (accessed October 30 2015).

58 IOSH, "Corporate Human Rights Benchmark: IOSH response to the Business and Human Rights Resource Centre consultation," http://www.iosh.co.uk/~/media/Documents/MYIOSH/Consultations/IOSH%20response%20CHRB%20Consultation.pdf (accessed October 29 2015).

59 Greater detail on the complexity of managing the subcontractor process according to Michael Hobbes of Huffington Post, who penned "The Myth of the Ethical Shopper," http://highline.huffingtonpost.com/articles/en/the-myth-of-the-ethical-shopper/ (accessed October 20th, 2015).

> *After the Tazreen fire, NGO campaigns focused on how Wal-Mart was responsible for 60 percent of the clothing being produced there. But Wal-Mart never actually placed an order with Tazreen. In fact, over a year before the fire, Wal-Mart inspected the factory and discovered that it was unsafe. By the time of the fire, it had banned its suppliers from using it.*
> *So here's how its products ended up at Tazreen anyway: Wal-Mart hired a megasupplier called Success Apparel to fill an order for shorts. Success hired another company, Simco, to carry out the work. Simco—without telling Success, much less Wal-Mart—sub-contracted 7 percent of the order to Tazreen's parent company, the Tuba Group, which then assigned it to Tazreen. Two other sub- (or sub-sub-sub-) contractors also placed Wal-Mart orders at Tazreen, also without telling the company.*

"Progress toward implementing sustainability in the supply chain requires the commitment of senior management and the involvement of a cross-functional supply chain team."

In preparation for a review of supply chain operations, OSH professionals should have an understanding of the various approaches that have been taken to improve OSH in the supply chain and an awareness of the tools and resources available to assist businesses in the supply chain management process.

A useful literature review providing assistance in reviewing supply chain operations is *Promoting occupational safety and health through the supply chain*,[60] published by European Agency for Safety and Health at Work. The report includes several case studies and provides an overview of how OSH can be managed and promoted through the supply chain and which drivers, incentives and instruments exist for companies to encourage good OSH practices among their suppliers and contractors.

Some relevant tools, standards, and resources are as follows:

- Collaborative industry platforms such as the Global Social Compliance Programme and the Supplier Ethical Data Exchange (SEDEX) have been developed to standardize audit protocols

[60] European Agency for Safety and Health at Work, "Promoting occupational safety and health through the supply chain: Literature Review," 2012 https://osha.europa.eu/en/tools-and-publications/publications/literature_reviews/promoting-occupational-safety-and-health-through-the-supply-chain (accessed October 20 2015).

and pool auditing resources, thus making the auditing process more efficient and effective.

- A tool called RepRisk assists the conducting of the due diligence process for potential suppliers or the monitoring process for existing vendors. Taking advantage of the vast amount of publically available information provided by NGOs, regulatory bodies, bloggers and the like, RepRisk "systematically collects and analyzes negative incidents, criticism, and controversies about companies and projects worldwide, and offers information on activities related to human rights violations, poor working conditions, corruption, and environmental destruction."[61]
- ISO 31000:2009, *Risk management – Principles and guidelines* provides guidance on managing risks in the supply chain. A document that provides insight on the application of ISO 31000 to the supply chain is *Supply Chain Risk Management: A Compilation of Best Practices*.
- BS OHSAS 18001 *Occupational Health and Safety Management* provides guidance on how to include the supply chain in an organization's OSH management system.

Identify key external stakeholders and determine if there is an opportunity to better understand their needs, interests, expectations and issues raised, or improve engagement

ISO 26000 provides guidance on this process and contains a section on "Stakeholder identification and engagement." ISO 26000 defines stakeholders as "organizations or individuals that have one or more interests in any decision or activity of an organization."[62] Stakeholder engagement involves dialogue between the organization and one or more of its stakeholders. It assists the organization in addressing its social responsibility by providing an informed basis for its decisions.[63]

According to the standard, stakeholder engagement can be used to:

- increase an organization's understanding of the likely consequences of its decisions and activities on specific stakeholders;
- determine how best to increase the beneficial impacts of the organization's decisions and activities and how to lessen any adverse impact;
- determine whether the organization's claims about its social responsibility are perceived to be credible;
- help an organization review its performance so it can improve;
- reconcile conflicts involving its own interests, those of its stakeholders and the expectations of society as a whole;
- address the link between the stakeholders' interests and the responsibilities of the organization to society at large;
- contribute to continuous learning by the organization;
- fulfill legal obligations (for instance to employees);
- address conflicting interests, either between the organization and the stakeholder or between stakeholders;
- provide the organization with the benefits of obtaining diverse perspectives;
- increase transparency of its decisions and activities; and
- form partnerships to achieve mutually beneficial objectives.

ISO 26000 also includes an appendix that lists significant sustainability groups and initiatives. The appendix helps identify relevant groups or initiatives to an organization's operation. Websites and social media platforms are available to

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[61] RepRisk website, http://www.reprisk.com/ (accessed October 20 2015).

[62] International Organization for Standardization. 2010. *ISO 26000: Guidance on social responsibility*. Geneve, Switzerland: International Organization for Standardization, Page 17.

[63] Ibid, page 28.

identify needs, interests, expectations and issues raised. Current methods of engaging key stakeholders should be identified and understanding how to improve communications with these groups discussed with senior management.

Identify and review gaps in publically-reported OSH KPIs and make the information more useful for key stakeholders

OSH professionals should be familiar with the OSH reporting initiatives relevant to their industries. For example, if SASB has found OSH to be a material issue for an industry they will have developed related OSH KPIs. The organization may not currently be reporting on some of the SASB KPIs, such as near misses in certain industries. Or, the organization might be reporting relevant information but in a conflicting format. Senior management may, however, require information be provided on SASB KPIs and in the requisite format.

An initial goal for OSH professionals should be to ensure that their KPIs are in a format that lends itself to comparison and benchmarking. Unlike the widely used Global Reporting Initiative (GRI) G4 OSH indicators, the CSHS indicators provided in this paper are designed for this purpose. They are broader in scope and are more widely applicable to assessing workplaces worldwide and across all economies. The CSHS indicators extend coverage to temporary or fixed duration contract workers and increase focus on workers in the supply chain.

When reviewing one's KPIs, the OSH professional should be aware that the trends are towards industry specific indicators and those which relate to issues that are material to the organization. Ideally, the indicators should capture the impact of your operations on key stakeholders.

This presents an opportunity for OSH professionals to take a leadership role and collaboratively develop an industry-specific sustainability plan that incorporates best practices, standards and guidelines. The chemical industry's adoption of the Responsible Care initiative is an excellent example of an industry taking a sustainability leadership role and implementing it on a global basis.

Conclusion

From an OSH perspective it is difficult to articulate any significant benefits which can be directly attributed from the sustainability movement over the last two decades. The need for better, more proactive management of occupational safety and health from the board level is as important as ever. According to International Labour Organization (ILO) data, an estimated 2.3 million deaths occur every year from workplace accidents and work-related diseases. One worker dies every 15 seconds. In addition, there are 313 million non-fatal workplace accidents and 160 million people suffer from occupational and work-related diseases annually, amounting to economic costs that are estimated to average 4% of country GDPs.

Integrated reporting and accounting for the six capitals hold great promise for advancing the protection of the global workforce. While traditional methods of reporting on sustainability produce reams of data that are incomplete, inaccurate, irrelevant and not readily understood or useful to key stakeholders, integrated reporting is a major step in the direction of corporate transparency and assuring that the information an organization reports is meaningful.

The expectation is that integrated reporting will increase focus on the disclosure of material information relevant to the decision making process and a continued move toward the adoption of standards ensuring rigor in the disclosure process. Overall, less information may be disclosed but it will be more meaningful to key stakeholders.

The movement to understand how organizations create value for key stakeholders through the lens of the six capitals has been called "only the second revolution in accounting since double-entry bookkeeping began" – several hundred years ago. It promises to "transform the way the world does business" and "alter the nature of capitalism."[64] Although some may see this statement as hyperbole, it cannot be denied that the concepts of integrated reporting and the six capitals have radically transformed the sustainability landscape.

Integrated reporting has moved sustainability issues from the "backroom to the boardroom" by recognizing that disclosing sustainability information is as important as disclosing financial information. Sustainability information helps leaders identify opportunities for risk mitigation and value creation and helps investors and analysts understand factors that affect investment performance, resulting in an increased focus on improving performance on "material" sustainability issues.

"Integrated reporting has moved sustainability issues from the "backroom to the boardroom" by recognizing that disclosing sustainability information is as important as disclosing financial information."

As "integrated thinking" gains acceptance within organizations, sustainability will be better integrated into business strategies, processes and decisions. Achieving this will take a multidisciplinary approach and OSH professionals should

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[64] Jane Gleeson-White, *Six Capitals, or Can Accountants Save the Planet?: Rethinking Capitalism for the Twenty-First Century*, (New York: WW Norton & Company, 2014).

play a leadership role in such activities as the evaluation of interventions, supply chain management, horizon scanning, and developing and implementing new standards such as ISO 45001 *Occupational health and safety management systems – requirements with guidance for use*;[65] ISO 27500 *Human-centred organisation*,[66] and ISO 20400 *Sustainable procurement*.[67]

Integrated thinking is beyond theory as there are pioneering companies with clear sustainability value propositions. They use leading OSH practices which they believe not only provide an opportunity to assure their investors, but also improve reputation, resilience and risk. One example is Brazilian cosmetics giant Natura, which revised its materiality matrix in 2010 and 2011 to address its impact on the Amazonian water basin and the threat of drinking water shortage. Their efforts led to a 4.7% reduction in consumption per unit produced in 2011.

Some examples of these companies that feature OSH as a strategic priority include:

- Unilever's Sustainable Living Plan, which includes a goal to help one billion people im prove their health and wellbeing by 2020
- Skanska's Deep Green initiative, which targets zero harm
- Novelis, for whom OSH is a core value linked to reputation for all stakeholders, including shareholders
- Heineken's new global sustainability strategy, which "puts employees first" and focuses on OSH.

The ramifications for OSH are undeniable. Integrated reporting, the elevated importance of human capital to the boardroom and the importance of supply chain performance will bring new focus to OSH. CSHS believes and promotes the importance of occupational safety and health in all sectors and activities and believes that it is a critical factor in all successful companies. The concerns are not simply those of a large multinational. Small and medium-sized businesses must follow suit, given growth in these segments, market expansion globally. A solid understanding of sustainability is a matter of competitiveness.

The OSH profession must follow suit. Practitioners must prepare themselves by developing professional competencies that prepare them to communicate at a senior level within and outside the organization. They must look beyond narrow, local regulations, company and industry-specific standards to global reporting indices and standards, particularly ISO. OSH professional associations must provide the requisite education through training and certification. Not recognizing the business realities that sustainability brings risks being left behind in reactive, compliance-focused roles.

[65] ISO 45001 aims to help organization reduce occupational injuries and diseases by providing a framework to improve employee safety, reduce workplace risks and create better, safer working conditions.

[66] This draft standard, ISO 27500, is aimed specifically at executive board members and explains the 7 principles which characterize a "human-centred" organization.

[67] The future ISO 20400 will standardize guidelines and principles for all stakeholders working with internal and external purchasing processes – including contractors, suppliers, buyers and local authority – as part of an effort to demonstrate good practices for sustainable purchasing.

Appendix I

Center for Safety and Health Sustainability OSH Performance Metrics

1. Lost-time injury and illness frequency rate, lost-time injury and illness severity rate, and number of fatalities (all employees/workers – 5 year period).

2. Lost-time injury and illness frequency rate, lost-time injury and illness severity rate, and number of fatalities (all contractors – 5 year period).

3. % of owned or leased manufacturing, production, or warehousing facilities that have implemented an occupational safety health management system that meets nationally or internationally recognized standard or guideline.

4. % of owned or leased manufacturing, production, or warehousing facilities that have had their occupational safety health management systems audited.

5. % of direct/first tier suppliers' facilities that were audited for compliance with safety and health standards.

Definitions:

Employee/worker – A person who is subject to the control of the organization's management for the performance of work duties, including contract workers and temporary workers.

Contractor – External person(s) providing services to an organization at a workplace in accordance with agreed specifications terms and conditions.

Lost-time injury or illness – A nonfatal occupational injury or illness that causes a loss of time from work beyond the day or shift it occurred.

Lost-time injury and illness rate – The number of lost-time injuries and illnesses per million hours worked, calculated using this formula:

(Number of lost-time injuries and illnesses x 1,000,000)/Total hours worked in accounting period

Lost-time injury and illness severity rate – The number of days away from work due to workplace injury or illness per one million man hours worked, calculated using this equation:

(# of work days lost x 1,000,000)/Total hours worked

Safety and health standards – Standards required by contract with the supplier, pursuant to an agreed upon Supplier Code of Conduct, or by relevant local law or regulation.

Global Reporting Initiative Indicators Related to Occupational Safety and Health

G4-LA5: Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs

G4-LA6: Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender

G4-LA7: Workers with high incidence or high risk of diseases related to their occupation

G4-LA8: Health and safety topics covered in formal agreements with trade unions

Center for
Safety & Health Sustainability

CSHS provides over 100,000 occupational safety and health professionals in over 70 countries with a stronger voice in shaping sustainability policies. Officially launched in June 2011, CSHS is a 501(c)3 nonprofit organization committed to advancing the safety, health and sustainability of the global workplace.

www.centershs.org