BEST PRACTICES

HUMAN CAPITAL
OSH Professionals’ Role in Putting Employee Protection & Well-Being at the Center of Sustainable Business Management
By Louis Wustemann

The UN definition of sustainable development is “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

More and more businesses, under pressure from governments, customers and investors, are trying to adapt their activities to take account of that definition and are reporting on their environmental, social and governance (ESG) management. But most of them have focused mainly on the environmental impacts of their products and services rather than the impacts on people, particularly their own employees. There are now growing calls to recognize that, in the words of the UN definition, “meeting the needs of the present” by exposing employees—whether directly employed or remotely in supply chains—to physical harm from poor working conditions is not a sustainable way to do business. And, conversely, there is increasing interest in the value that good employers gain from looking after their workforces, enabling them to perform at their best and go home safe and healthy.

The Sustainable Development Goals
In 2015, the UN launched the Sustainable Development Goals, a framework for businesses, governments and other stakeholders to work toward to ensure sustainable growth while improving conditions for the world’s population. The 17 goals, signed up to by 193 UN member states, set targets for development by 2030 covering environmental standards, poverty and hunger, equal opportunities and decent work.

To help businesses contribute to these goals, the UN created the Global Compact, which translates the Sustainable Development Goals into a set of measures that organizations can implement and report on. The compact commits organizations to “align strategies and operations with universal principles on human rights, labor, environment and anticorruption, and take actions that advance societal goals” and more than 13,000 companies have signed up. To achieve transparency, organizations who join the compact are expected to publish an annual communication on progress to inform stakeholders on their efforts to implement the compact’s principles.

The Human Capital Approach
The five capitals model (Figure 1) evolved to help businesses put sustainability in the context of what they already do. The model offers a framework to account for all the elements companies depend on to operate successfully. The two factors traditionally recognized by economists are financial capital, the money that allows the other capitals to be traded, and manufactured capital, the fixed assets, machinery and buildings essential to production.

These are supplemented in the model by capitals that businesses depend on but have not traditionally accounted for:
• Natural capital is the environmental underpinning, from the climate that permits life on our planet through to the natural resources, including water and energy, that makes business possible.
• Social capital represents community, networks, families, shared culture and cooperation. It is vital to the stability of human capital.
• Human capital is about people, their recruitment, retention and development.

The capitals are interconnected; to be sustainable, a business needs to keep them all in balance. And if businesses do not account for the costs of all the resources—the capitals—they rely on, then those costs are borne by others.

Human capital has been particularly undervalued in previous decades. Even organizations that used the slogan “People are our greatest asset” did not often act like it. But in largely post-industrial economies it is a profound truth; employees are the major component in value generation.

Human capital is the economic value of a worker’s experience and skills. This includes things like education, training, intelligence, creativity, skills, health and personal or shared values such as loyalty and punctuality. Thinking of people in a business as resources with the drive, knowledge, passion and the energy to make incredible things happen, rather than as interchangeable units of production, creates a shift in mindset where they become critical assets.

Many organizations have begun to recognize that nurturing human capital is critical to their success and are paying increasing attention to refining recruitment, development and succession planning. Evidence suggests that investments in human capital, including higher education, yield long-term economic rates of return that far exceed most standard investments in technology or capital. The more skilled and empowered the workforce, the more productive it tends to be.

But safety and health seldom feature in human capital strategies, which is an oversight. If people are a valuable asset, then keeping them safe and healthy is fundamental asset protection. Looking after their well-being, too, is essential to maintaining their productivity and unlocking creativity and innovation. Organizations with high absence rates are not just wasting financial capital in sick pay and labor replacement costs, they are wasting their human capital.

There is work for safety and health professionals to do to establish clearer links between absenteeism and the work we do, and to show the vital role they play in making sure workers can give their best performance.

People must be nurtured throughout their careers so they can achieve their personal ambitions and go beyond. Safety and health professionals have a role to create a narrative that translates into wise collective and personal risk choices being made with a well-being outcome.

The Capitals Coalition
The Capitals Coalition is an umbrella body for investors, major employers (including Coca Cola, Dow Chemical and Unilever) and nongovernmental organizations, whose aim is to encourage businesses and governments to include all the capitals in their decision making, resulting in a fairer, more sustainable world economy.

The coalition’s Human Capital-Occupational Safety and Health Working Group is a group of leading safety and health professionals dedicated to raising...
awareness of the vital role the profession plays in human capital management.

“People are at the core of every thriving business and their health, safety and well-being contribute to how well the business thrives,” says Kathy Seabrook, working group member and past ASSP president, who is CEO of the Global Solutions Inc. consultancy.

Louise Hosking, an independent consultant working predominantly with small and medium sized companies also sits on the working group; she says that the vital role safety and health professionals have played during the pandemic can be leveraged to highlight its importance in weighing human capital with the other capitals. “Health and safety has been under a spotlight,” she says, “but actually we want it to be part of the DNA of a business, in balance with other aspects. This is what makes businesses sustainable.”

Members of the group speak at business conferences and forums highlighting how OSH professionals can show businesses how to create arrangements for transparent reporting of safety and health metrics that boards and stakeholders can easily understand.

“Clear reporting and alignment with UN sustainability goals is not just for large organizations; they translate well into any size business,” says Hosking. “If we can improve reporting, we will achieve greater accountability and customers can make more informed choices, which improves standards and rewards sustainable businesses.”

As well as helping raise the profile of safety and health as a pillar of sustainable business management, the working group is helping promote and refine reporting standards such as the Global Reporting Initiative’s GRI 403, Occupational Health and Safety 2018 specification for health, safety and well-being policies and metrics and the Sustainability Accounting Standards Board’s industry standards that define safety and health as a material issue to specific sectors.

Investor Pressure

Just as they helped direct corporate attention to environmental issues over previous decades, institutional investors are now beginning to ask questions of the organizations whose stock they hold about their human capital standards, including supply chain standards, diversity, and safety and health. In the case of some of the biggest investors, including church and state pension funds, this is driven by a desire to see their money work for the good of society as a whole and not to reward employers with poor labor standards. But the wider investor community and the fund managers it employs are increasingly making the connection between good ESG management and good business.

The biggest fund manager, BlackRock, which has U.S. $6.84 trillion worth of assets under management, is among many that now have stewardship staff examining the sustainability policies of the businesses they invest in. BlackRock CEO Larry Fink said in an open letter to companies that they will be evaluated on their human capital management.

Investors’ prioritization of ESG makes financial sense. Companies managed with a focus on sustainability should be better positioned than their less sustainable peers to weather adverse conditions because they invest in prevention measures. The COVID-19 pandemic has brought some of the most adverse conditions imaginable for many businesses and those who could count on the loyalty of a well-cared-for workforce have often fared best. During the pandemic we have seen ESG funds perform well. In a globally connected news world, where we all leave a digital footprint, they also know those organizations with positive values and high standards are less exposed to reputational risk. The desire for ethical investment will drive ethical values, which creates an interest to understand more about the issues we all care about as safety and health professionals. With clearer reporting of leading and lagging indicators customers can make informed decisions and we will have a more transparent picture of standards across supply chains.

Business Roundtable, comprising 181 CEOs of the largest corporations, issued a statement in 2019 committing their businesses to serving all stakeholders, including employees and communities as well as the interests of shareholders who have had primacy in previous statements. Business Roundtable chair Jamie Dimon, CEO of JPMorgan Chase, says “Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term.”

As employers become more receptive to the value of nurturing human capital, the door opens for safety and health professionals with modern leadership skills to demonstrate the value they create, moving the discussion away from safety and health as a simple compliance issue and a cost for businesses, repositioning it as a brand differentiator, which promotes competitive advantage and continuing growth.

Companies that place protecting, developing and valuing people at the center of their business can achieve remarkable results and create a platform from which the other elements of sustainability flow easily. To describe this virtuous state, Seabrook has adapted a concept first used in lean process improvement, that of an alignment to “true north.”

“True north is where business, finance and society value people,” she says. “In companies it means the impact and interdependency of people and their safety, health and well-being are intrinsically valued and reflected in all decision making. Does your company pass the ‘true north test’?” she asks. PSJ

References


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