

Safety governance and leadership for directors and senior executives

DUE DILIGENCE AND BEYOND



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Due diligence duties

The *Health and Safety at Work Act* places a positive duty on 'officers' to actively engage in health and safety matters. Officers includes directors, partners, and chief executives.

Officers must take reasonable steps to



Know about work health and safety matters and keep up-to-date.



Understand the operations of the organisation, and the hazards and risks generally associated with those operations.



Ensure the organisation has appropriate resources and processes to eliminate or minimise those risks.



Ensure the organisation has appropriate processes for receiving information about incidents, hazards and risks, and for responding to that information.



Ensure there are processes for complying with any duty, and that these are implemented.



Verify that these resources and processes are in place and being used.

Officers do not have to ensure the health and safety of workers. Rather, they must exercise due diligence to ensure the organisation meets its duty to ensure the health and safety of workers.

For more information see www.business.govt.nz/worksafe/about/reform

Beyond compliance – safety leadership

The quality of the safety governance and leadership demonstrated by New Zealand's directors and senior executives will come under increased scrutiny with the passage of the *Health and Safety at Work Act*.

The Act includes due diligence requirements for 'officers' to proactively engage in health and safety matters. Officers includes directors, partners, and chief executives.

For lessons on how to put this pro-active approach into practice, New Zealand can look across the Tasman where a similar regime is already in place.

Australian company director and Adjunct Professor, Dr Kirstin Ferguson, has conducted research¹ on the role of directors and senior executives in safety leadership and governance.

Dr Ferguson's research offers valuable insights into actions senior leaders, who are often located some distance from day-to-day operations, can take to keep their people safe from harm – and to meet their due diligence obligations.

¹ Ferguson, K. (2015). A study of safety leadership and safety governance for board members and senior executives. QUT. PhD thesis.



Key safety leadership criteria for directors and senior executives

Dr Ferguson's research identified and defined four key criteria for safety leadership that are highly relevant to senior leaders, such as directors and senior executives.



Vision

Senior leaders need to publicly articulate shared health and safety goals that resonate across all levels of their organisation. Senior leaders demonstrating vision will inspire others, set high standards for safety behaviours, establish expectations and solicit safety commitments from others.

Practical Examples

- Ensure the CEO and Chair regularly reinforce the company's safety vision to employees and contractors.
- Ensure directors authentically engage with employees on health and safety issues while on site visits.
- Ensure directors understand the importance of, and actively support, the CEO and senior executive team in their day-to-day safety leadership activities.
- Establish 'non-negotiable' safety rules across the company and ensure these are widely understood.

Personal commitment

Senior leaders with a personal commitment to health and safety have a sincere, visible and genuine dedication that demonstrates care for others' welfare. They display a positive attitude to health and safety in the workplace, role model safe behaviours and help solve safety issues on behalf of employees.

Practical Examples

- Ensure the board's charter includes a commitment to health and safety, to send a message that these are critical issues worthy of board attention.
- Ensure all board and executive team decisions support the 'safe production' message, and don't create conflicting objectives for workers needing to meet production targets at the expense of safety.
- Demonstrate safety leadership during on-site visits through authentic engagement with employees on health and safety issues.
- Ensure directors acknowledge and accept their role to support senior executives in their safety leadership.



Decision-making

Directors need to promote a sound assessment of safety issues when board decisions are being made, and enable open communication between all levels of an organisation. Senior executives need to ensure health and safety concerns are heard and that workers are included in the safety planning process.

Practical Examples

- Establish a board sub-committee focused on health and safety. Ensure the sub-committee has an effective charter clearly setting out safety responsibilities.
- Ensure robust and meaningful reporting to the board monthly (or at least, quarterly) that covers lead and lag indicators for employees and contractors, and focuses on severity of injury as well as personal and process safety.
- Consider the health and safety implications of all board decisions, particularly when considering starting new projects, purchasing assets or bidding for new work.
- Include safety leadership in any evaluation of the board, and in the performance management system for senior executives. Ensure this cascades throughout the company.
- Ensure the senior executive responsible for health and safety has adequate exposure to the board and reports directly to the board or relevant subcommittee.



Transparency

Directors need to be open to scrutiny of health and safety performance, through monitoring and by communicating the effectiveness of safety initiatives. Senior executives need to communicate in a way that celebrates health and safety successes, and openly deals with challenges as they emerge.

Practical Examples

- Ensure a consistent and comparable range of lead and lag indicators are reported to stakeholders, including detailed safety-related disclosures in annual and corporate social responsibility reports.
- Develop open communication with other companies to ensure best practice in health and safety. Adopt a view that there are 'no secrets in safety' – and that worker safety comes before any concerns about competitor advantage.
- Ensure the board is apprised of critical safety incidents immediately and given full details of investigation findings as they become known.
- Undertake regular safety culture or safety climate surveys and provided results to the board.

Safety governance

– How are you tracking?

Dr Kirstin Ferguson developed a *Safety Governance Pathway* to enable organisations to identify the maturity of their safety governance frameworks.

By identifying where an organisation sits on the pathway, it enables insights to be gained into how directors and senior executives can progressively and effectively improve safety governance in the organisations they govern and lead.

What is safety governance?

Dr Ferguson has defined safety governance as the relationship between boards and senior executives in the safety leadership of an organisation. It provides:

- The **structure** for setting the vision and commitment to health and safety
- Agreement on how **health and safety objectives** will be met
- The framework for **monitoring performance**
- A means for ensuring **legal obligations** are met.

Five stages of safety governance

Transactional

Boards at the transactional stage of health and safety governance generally only get engaged after there has been an incident and tend not to make disclosures about performance in their annual reports. These are the least effective boards when it comes to health and safety, because they view it as a management responsibility.

Compliant

Many boards react to new legislation by focusing on compliance. They are aware of their legal duties and try to ensure basic health and safety reporting, often focusing on lag indicators. Health and safety might be referred to in annual reports very briefly. But overall, legal compliance is the main driver, rather than a desire to understand the importance of safety leadership and its impact on safety culture.

Focused

Once a compliance framework for safety is in place, boards often focus on going beyond mere legal compliance. Health and safety might be included in the board charter, a vision and targets might

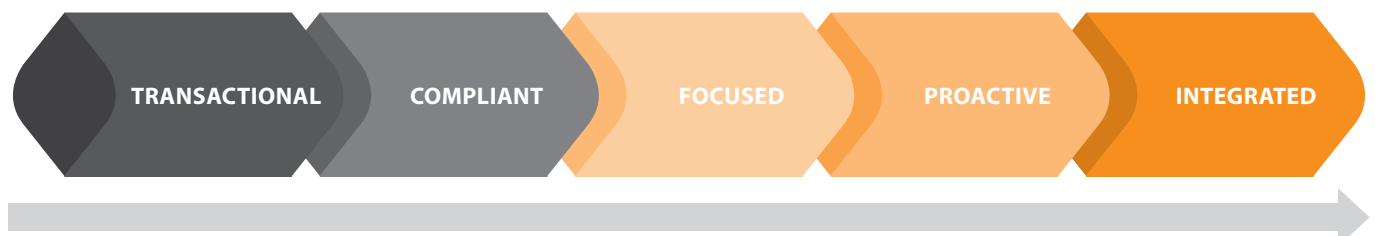
be set, and lead indicators introduced. Often safety systems and processes are disclosed in annual reports.

Pro-active

Boards comfortable with their role in safety leadership become more pro-active. They might seek greater health and safety performance from their executive teams and establish health and safety sub-committees. The Chair often makes a personal commitment to health and safety in the annual report, and public disclosures might include both lag and lead indicators.

Integrated

By this stage, the link between high health and safety performance and business excellence is understood and accepted by the board and senior executives. Clear statements about the board's role in safety are made in annual reports. Safety-related disclosures – good and bad – are honest and transparent. These are the hallmarks of the most effective safety governance frameworks, where boards ensure health and safety is completely integrated with operations.



Reporting publicly on health and safety

Increasingly, Australian companies are reporting health and safety performance in their annual and corporate social responsibility reports.

With New Zealand adopting similar legislation to Australia, expectations might increase on our companies to also publicly report on their performance. But what do good health and safety disclosures look like? During her research, Dr Kirstin Ferguson analysed safety disclosures by Australian listed (ASX200) companies over a 10-year period and came up with the following insights:

Vision disclosures

In 2011, among ASX200 companies: 76% made a disclosure about health and safety vision.

Examples of what they disclosed:

- Direct statement that safety is a company value or there is a goal of Zero Harm
- Disclosures linking the company safety vision with ongoing business excellence
- Statements regarding the importance of leadership and culture in achieving the safety vision
- Disclosures linking the company's reputation and safety performance.

Personal commitment disclosures

46% of Chair and/or CEO letters made mention of health and safety.

Examples of what they disclosed:

- Fatalities, statistical performance outcomes, or general safety successes or challenges
- Links between good safety performance and ongoing business excellence
- Linking leadership and safety culture
- Highlighting the board's role in health and safety.

Decision-making disclosures

89% made disclosures about safety and decision-making.

Examples of what they disclosed:

- Existence of safety documents and systems
- Information on the board's role in health and safety, including a board committee
- Role of employees and employee safety committees in safety decision-making
- Role of senior executives in safety decision-making.

Transparency disclosures

72% made a disclosure about transparency.

Examples of what they disclosed:

- Statistical safety performance, including fatalities
- Details of link between health and safety outcomes and remuneration
- Safety recognition through internal/external awards
- Information on legal action against the company relating to a health and safety incident.

About Dr Kirstin Ferguson

Dr Kirstin Ferguson is a professional company director sitting on ASX 100 and ASX200 boards, private company and government boards. Kirstin was previously the global CEO of a safety consulting organisation operating in the mining and resources industry.

In 2014, the Australian Financial Review named Kirstin as one of Australia's 100 Women of Influence.

Kirstin has a PhD in Business focused on safety leadership and safety governance for board members and senior executives, and was awarded the QUT Colin Brain Corporate Governance Fellowship for her research contributions. She also has Honours degrees in Law and Arts.

Kirstin sits on the Editorial Board of *OHS Professional*, the journal of the Safety Institute of Australia, and was previously an independent expert member of the Queensland Workplace Health and Safety Board. Kirstin is an Adjunct Professor at the QUT Business School.



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More information

Read white papers from Dr Kirstin Ferguson at: www.orbitasgroup.com or download a copy of her research at <http://eprints.qut.edu.au/81349/>

What is safety leadership? A guide for CEOs: www.zeroharm.org.nz/leadership/8-things-a-ceo-can-do

Forum executive safety leadership courses: contact info@zeroharm.org.nz for upcoming courses

Institute of Directors resources:

www.iod.org.nz/Governance-Resources/Resource-library/Risk/Health-and-safety

www.iod.org.nz/Director-Development/Courses-and-workshops/Online-modules/Health-and-Safety-Governance

About the Business Leaders' Health and Safety Forum

The Business Leaders' Health and Safety Forum inspires and supports its members to become more effective leaders on health and safety. The Forum has more than 200 members, who are CEOs or Managing Directors of significant New Zealand companies.

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