

Investor Perspective on Health & Safety
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Standard Life Investments at Health & Safety Commission
Conference for Investors, Pension Fund Managers and Trustees, Trade Unions and
the Corporate Social Responsibility Movement

Ordinarily, I would start off telling you that I am delighted to have the opportunity to speak to you today about how we look at issues of health and safety. However, last week I was in Stockholm, attending a meeting of government agencies from across Europe and North America to talk about corporate social responsibility. At the meeting I learned that when government representatives meet they do not make speeches, they make interventions. So I will instead say that I am delighted to have the opportunity to make an intervention on the issue of health and safety.

In the last six months I have participated in discussions about corporate responsibility not only in Stockholm but also in Tokyo, Cape Town and Geneva, not to mention London and my hometown of Edinburgh. These meetings evidence the greater importance that corporate responsibility issues have assumed over the last few years.

This is in line with the growing expectations of governments, communities, employees, campaign organisations and some investors that the private sector should contribute to a better environment, international development and social progress. Traditionally, these goals were the preserve of governments, while business was expected to stick to business. Today, however, companies have realised that unless they behave responsibly, they will lose customers and damage their business prospects. The failure to consider the impact of business operations on local communities, the use of suppliers that employ child labour, or operating in countries that attract universal condemnation, have all proved problematic for major multinationals.

While it may not be possible to quantify the direct impact of such issues on stock price performance, there is no doubt that they can have a serious effect on reputation, customer attitudes and employee morale. This is recognised by the increasing number of companies which assert that a focus on corporate responsibility issues helps to raise performance standards generally and provide a competitive edge. It is also recognised by the growing number of investors that take these nonfinancial aspects of performance into account in making investment decisions because they view the management of CSR issues as a proxy for good management in general.

Health and safety standards are a component of good practice in corporate responsibility. At Standard Life Investments we believe companies that provide safe and healthy working environments for their employees are likely to derive positive results from a good quality working environment and a more committed and productive workforce. It is a regular part of our analysis to look at companies' performance on health and safety, particularly when they operate in industries that have high injury and fatality rates. And we ask companies questions about health and safety when they have not made such information publicly available.

We know that keeping employees safe is not only the right thing to do in terms of a business outcome. Poor health and safety has a cost- a financial cost and a reputation cost.

It is estimated that a lost time injury average for injuries of varying severity, carries a cost of approximately \$30,000. The cost of an occupational disease is estimated at five to ten times the cost of a lost time injury, as much as \$150,000-\$300,000 an incident.

We are also aware that the stakeholder microscope is looking quite closely at how companies scrutinise their supply chains. This focus arose initially because of concerns about child labour and sweatshop working conditions overseas, but it has moved and will continue to move to cover environmental and social issues, including health and safety performance. I believe that good health and safety performance will become increasingly important as companies scrutinise potential suppliers and partners to ensure that their health and safety records will not reflect negatively on their own reputation and performance.

As investor interest in corporate responsibility has grown, companies have realised that it is in their interest to demonstrate that they have in place policies, strategies and management systems that ensure employees are motivated, productive, healthy and safe. They also want to show good performance on health and safety measures.

But it is not easy for companies to decide how these issues are best described. I read CSR reports every day, and it is obvious that companies are wary and sensitive about how the data they report will be interpreted. Consider the case of one company, which reported on its safety performance with the following comment:

“Whilst we have experienced some good results in overall safety performance, there were three fatalities during the year. This is a matter of intense regret for the organisation. However, only one fatality was process related... the other fatalities were both murders.”

Investors as well as companies are interested in improving the tools available for measuring and assessing the quality and effectiveness of corporate responsibility practices. Health and safety issues pose unique difficulties for those of us trying to decide whether one company's management has done a better job than another's, and we welcome the effort of the Health and Safety Executive to assist business in measuring how well it manages these issues.

The Final Report published by the Health and Safety Executive outlines many of the significant challenges in assessing health and safety management and performance. These include the ones that most concern us as investors, which are:

- Is the data presented an accurate indicator of what it purports to measure?
- Does the data presented indicate that a company has performed well or not?
- How does a company rate against its peers given industry specific risks and the nature, size and operating locations of the particular company?
- Does the data provide an overall assessment of the company?
- Are the indicators used part of a reporting framework that has defined relevant principles?

Two issues of particular concern to us are transparency and comprehensiveness.

To have any real meaning for us, index criteria and methodology must be totally transparent.

I also note that much of our work consists of analysing large multinational organisations with significant operations abroad. An indicator that covers only UK operations is of limited use. To be of real value to us, a health and safety index should include all company operations both within and outwith the UK.

To sum up

The spotlight on corporate social responsibility has heightened investor interest in how companies manage health and safety. Many questions remain about the specific nature of the link between H&S and business success, but it is clear that there are both direct and indirect costs associated with poor health and safety performance.

For all of these reasons, the Health and Safety Commission's work is a welcome contribution to the development of tools to measure and monitor performance.

Thank you very much, and I look forward to hearing your interventions later.