



“Leading” By Example: Why Leading Indicators are the Key to Your ESG-Compliant Employee Safety Program

Insights

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Companies concerned with the latest focal point of corporate governance are paying attention to human capital – and have started to recognize that one of the cornerstones of this initiative includes a commitment to employee safety. Not only is workplace safety a laudable goal to protect your businesses’ most valuable commodity – your people – it has now reached the stage where you may want to reveal certain information about your plans and policies to satisfy government regulators. No doubt you should take action, but not all workplace safety initiatives are created equal. What is the key to a solid employee safety program, and how can your organization stay on the forefront of Environmental, Social, and Governance (ESG) principles through your commitment to safety?

SEC Disclosure Requirements: A Summary

Investors and prospective employees want your organization to reveal more about your human capital practices, and in response to these demands, the Securities and Exchange Commission (SEC) introduced new disclosure requirements last year that could put your safety practices in the spotlight. Under the rules, public companies are required to disclose information about their Human Capital Management to the extent it is material to their business, which in this era means you need to have your workplace safety priorities locked in. Under the new SEC rules, the new disclosures must address:

- The number of employees and a description of the company’s human capital resources; and
- The human capital measures or objectives that the company focuses on in managing its business, such as those metrics related to the development, attraction, safety, engagement, and retention of employees.

Unfortunately, the SEC failed to provide a definition of Human Capital Management or a list of required measures or objectives. As a result, we’re left to fill in blanks for what must be disclosed. It is generally accepted that “Human Capital Management” is essentially how a company operates and invests in its workforce while trying to optimize long-term value in the organization. Illustrating a commitment to Human Capital Management includes many categories, such as:

- Diversity, Equity and Inclusion;
- Employee Benefits;

- Employee Learning and Development;
- Employee Engagement & Retention;
- Compensation Philosophy; and
- Employee Safety – which, as you can imagine, includes your COVID-19 pandemic response.

A Focus on Employee Safety Means a Focus on Leading Indicators

Employee Safety is a key part of how prospective employees evaluate a company's commitment to its workforce. Many organizations now highlight employee safety as an area that demonstrates superior management of the business, and to do it right, you need to consider leading indicators.

Lagging Indicators

Certain businesses focus on incident rates or injuries statistics, otherwise known as “lagging indicators.” Lagging indicators measure the occurrence and frequency of events that occurred in the past, such as the number or rate of injuries, illnesses, and fatalities. Lagging indicators may alert a company to a failure in the safety and health program – but keeping track of them cannot help you figure out if you are adept at preventing incidents.

Leading Indicators

Other companies are looking toward “leading indicators” to demonstrate a forward-looking approach to workplace safety. Leading indicators are proactive action steps, consisting of preventive measures that shed light upon the effectiveness of safety and health activities. They can also help reveal potential problems in a safety and health program. Leading indicators help you prevent incidents and can drive change. Some examples include:

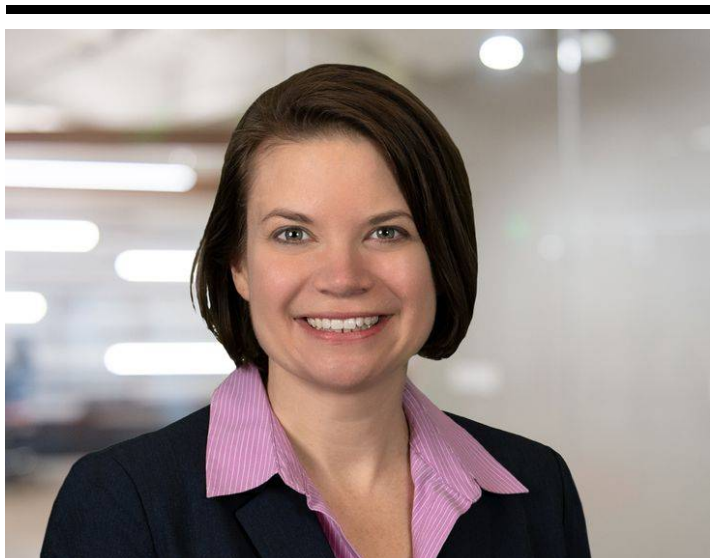
- An effective leading indicator might be the amount of time it takes to **respond to a safety hazard report**. When a company sees a decrease in response time, for example, it may demonstrate an increased awareness in safety.
- Companies also will look to see **how involved its workforce is in its safety policies** and programs. For example, a company may want to track the number of employees engaged in safety committees or targeted safety projects.
- Additionally, whether and how often employees **report near-misses and offer suggestions to improve safety** at a site or facility is a common leading indicator.
- Finally, leading indicators include **hazard identification** as well. Training your entire workforce, and not just your managers, to not only identify but report hazards helps improve overall worker safety.

Conclusion

Companies have begun increasing their investment in employee development, culture, labor standards, and health and safety in recent years. There's certainly no "one size fits all" safety metric, but focusing on leading indicators for Human Capital Management reporting provides an opportunity to emphasize your commitment to employee safety in a proactive rather than reactive manner. Regardless of any reporting requirements you may or may not face, you should pay attention to human capital for the growth and benefit of your overall corporate governance strategy.

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