

Everyone Benefits: Connecting health and safety and human capital

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Foreword

The centrality of people to business resilience was strongly reinforced by the events of the last year. Across the board, the ‘S’ in ESG has received unprecedented attention in terms of the role it plays in risk management and business continuity, and due to the re-balancing of the three pillars of corporate sustainability underway.

These shifts find the health and safety field in a pivotal position. Rather than being purely about keeping people safe and preventing injury and illness in the workplace, momentum is building towards recognizing the whole person, including wellness outside of work.

As well as being central to the deliberations of health and safety functions and their leadership, whole person worker concepts are gaining traction among investors and in boardrooms. This often emerges under the banner of human capital, which is defined in the Social & Human Capital Protocol as: “The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being.”¹ Despite this, consideration of human capital is too often siloed among different teams such as human resources, learning and development, and health and safety, resulting in a fragmented perspective for organizational leaders charged with the health, safety, and well-being of employees and the people working in their supply chains.

There is ongoing debate about what comprises human capital, and no universally accepted definition of the term. This exacerbates a situation where the metrics used by investors to assess organizations’ human capital management do not capture the full breadth of organizational knowledge previously developed through health and safety programs.

While discussion on the intersection between health and safety and human capital plays out, the just-released [2020 ERM Global Health and Safety Survey](#) reminded us of the ongoing challenge that keeping people safe and well presents.² Sixty percent of the 273 health and safety functional leaders consulted report one or more fatalities in the period from 2018 to the date of their interview, highlighting an enduring and concerning challenge.

ERM has five decades of experience helping clients protect and manage the health, safety, and well-being of their people as their businesses operate and grow. ERM’s perspectives on health and safety and human capital have also been shaped through work with influencers like the [Center for Safety & Health Sustainability](#),³ the [Social & Human Capital Coalition](#),⁴ the [Capitals Coalition](#),⁵ and the [Culture of Health for Business](#).⁶

This issue brief draws on ERM’s deep experience and those relationships, as well as insights from the 2020 ERM Global Health and Safety Survey mentioned above, to explore how health and safety-related learning and achievements connect to material human capital performance issues.

We believe that corporate leaders and decision-makers can and should make more direct links between health and safety programs and human capital management. This helps put people at the heart of business strategy and boosts companies’ long-term resilience, which, as 2020 revealed so starkly, is essential to business continuity and success.

Executive Summary

Introduction

Due to changes taking place in both society and business, more companies are prioritizing people – employees, certainly, but also workers up and down their value chains, and those who live in surrounding communities.

This ‘human element’ is increasingly recognized as a critical aspect of business that is central to long-term resilience. It is also garnering attention from investors, who understand the relevance of human capital management to financial performance – both shorter-term in response to immediate disruptions, and longer-term as organizations adapt and evolve to changing contexts.

Companies, their investors, and other stakeholders increasingly share the view that traditional notions of keeping people safe must expand beyond the essential but limited historic remit given to health and safety teams to prevent injury and illness in the workplace. Health and safety leaders are acting on this, seeking and deploying new approaches more focused on leadership and cultural change, as well as embedding concepts such as psychological safety into work environments. These actions often involve a ‘whole person’ perspective, which includes investing in workers’ wellness outside of work.

Human capital is defined in the Social & Human Capital Protocol as: “The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being.”⁷



The Evolving Understanding of Health and Safety

Events of 2020, especially but not exclusively the pandemic, accelerated evolution of the health and safety function, pushing it to respond to a changing world and shifting stakeholder expectations around what comprises health and safety. In this context, the latest [ERM Global Health and Safety Survey](#) (hereafter ‘the ERM Survey’ or ‘the Survey’) presents a comprehensive set of findings from interviews with 273 global corporate health and safety leaders.⁸

The findings of the Survey reinforce that health and safety leaders are on the frontline of an important area of human capital management. The Survey led us to these conclusions:

- 1 The human element is too often missing in health and safety approaches, but health and safety functions are changing to address this.
- 2 Health issues, especially related to mental health, are a top priority for health and safety leaders.
- 3 The health and safety function must evolve by working more closely with other parts of their organizations.
- 4 The best health and safety leaders understand the connection between leadership and performance.
- 5 Health and safety leaders see an opportunity to better connect the value derived from their function to other parts of their organizations.

Events of 2020, especially but not exclusively the pandemic, accelerated evolution of the health and safety function, pushing it to respond to a changing world and shifting stakeholder expectations.

The Evolving Understanding of Human Capital

In parallel to the transformation of the health and safety field and innovations across the function, evolution is taking place in the realm of human capital. Investors and other stakeholders are scrutinizing human capital management and performance trends and calling for new human capital disclosures.

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The period 2017-2020 was particularly dynamic, and 2021 will bring further changes due to related consultations and comment periods planned by the [Sustainable Accounting Standards Board \(SASB\)](#)⁹ and the [Global Reporting Initiative](#),¹⁰ as well as the pending merger of SASB and the [International Integrated Reporting Council \(IIRC\)](#).¹¹ In addition, the International Financial Reporting Standards (IFRS) Foundation’s recent [Consultation Paper on Sustainability Reporting](#), which closed its public comment period on December 31, 2020, is likely to shift reporting focus across a range of sustainability topics.¹²

Historic discussion on human capital management inside companies has most often happened in the context of board level governance and oversight, with boards tending to consider human capital management via a human resources lens, and sometimes an ESG lens, but rarely delving into the health and safety arena.

As the importance of human capital management to business performance has become more widely accepted, and as its definition has evolved to encompass an increasing range of topics, there are clear opportunities to streamline and better integrate the way that health and safety and other functions in business are coalescing, communicating, and collaborating around companies’ human capital management.

Connecting Health and Safety to Human Capital Performance

While debate continues about how to define and manage human capital, organizations can draw on work already being undertaken by leading health and safety professionals and other corporate practitioners. This report highlights three areas where companies have opportunities to create or protect value by better connecting health and safety and human capital thinking:

- 1 **Company Culture:** Developing a culture of care reflects human capital management best practice. It begins with ensuring health, safety, and well-being.
- 2 **Governance:** Creating cross-functional teams that include health and safety professionals enhances human capital management, increases business resilience, and improves ESG performance.
- 3 **Transparency & Disclosure:** Investor, customer, employee, and community demands for ESG performance data increasingly include human capital management information, aspects of which exist within the health and safety function.

The report concludes by recapping how greater collaboration between different business functions, including health and safety, can result in a higher performing organization due to the full appreciation, application, and management of its human capital.

Greater collaboration between different business functions, including health and safety, can result in a higher performing organization.



1. Introduction

The changing nature of work and shifting societal expectations support putting people at the center of company strategies and decision-making.

Fundamental shifts are taking place in how individuals work, whether on the factory floor, in the field, or sitting at a desk.

Many traditional entry-level jobs are disappearing due to automation or the gig economy. We may never see large office towers crammed with workers five days a week again. The lines between work hours and personal hours were blurred previously and are more so now that so many more people are working from home. The COVID-19 pandemic has served to amplify these and other trends and created greater appreciation for the importance of the health, wellness, and well-being of all people.

Businesses in every industry are grappling with how to build resilience into their business models. While some aspects of resilience are hard to define, recent [ERM research](#) shows that people management is a key ingredient, since people and their adaptive abilities are so central to companies' ability to pivot, adjust, develop, and implement new ideas.¹³ Arguably, people are the most important asset of any business, meaning caring for and valuing people requires constant, long-term investment.

There is also evidence arguing for more direct linkages between health and safety and business performance through consideration of the return on investment (ROI) that health and safety initiatives provide. As Dr. Andrew Sharman shows in his book *One Percent Safer*, as well as a safer workplace leading to lower turnover, improved productivity, and improved corporate reputation, each dollar spent on workplace safety generates four to six times ROI.¹⁴

These realities mean that the ‘S’ in ESG and the ‘health’ in health and safety are increasingly in focus. Prior concepts of keeping people safe – the essential but limited original remit of health and safety functions – are expanding to encompass caring for the whole person, at work and at home.

A variety of reactions are visible as a result:

▶ **Leading companies are talking more about their values – including valuing people – and defining themselves as purpose-driven organizations.**

Executive and board commitments articulate ambitions to put people at the center of all they do and nurture well-being and mental health. They are responding with new approaches, including programs focused on critical risk (where such risk might lead to fatalities), the integration of human performance models in health and safety philosophy, and initiatives that embrace psychological safety as an enabler of safer workers and work environments.

Are business leaders realizing the value that these programs add and incorporating them in integrated approaches to human capital across their organizations?

▶ **Financial markets are demanding more information from companies, including on human capital.**

Along with climate and governance, investors are deeply interested in the topic of human capital due to increasing awareness of the role it plays in long-term financial performance.^{15, 16}

Requests for human capital data consistently include human resources-related topics, but only occasionally embrace data captured using health and safety metrics such as reported accidents, injuries, absence, and the effectiveness of leadership.

There is a growing market demand for quantifiable and material ESG information. Are investors overlooking some of the most crucial data already being captured using the proven and standardized leading and lagging indicators utilized in health and safety departments?

▶ **New and established industry, professional, and non-governmental organizations are helping others focus on and understand human capital.**

Organizations like the Center for Safety and Health Sustainability (CSHS), the Capitals Coalition, SASB, and GRI are helping reshape ESG for a post-COVID-19 world.

In addition to existing GRI and SASB work streams that are already influencing health and safety and human capital standards, the late 2020 merger of SASB with the International Integrated Reporting Council (IIRC) will create even more dynamic activity in 2021.¹⁷ The recent IFRS Foundation consultation on sustainability reporting will also shape the field in 2021.

How can companies keep up with and influence these evolutions? How can companies ensure they are grounded in the practice and knowledge of companies’ experience in human capital management, building on the already solid foundations of strong health and safety mandates?



The remainder of this issue brief digs deeper into what health and safety leaders, other corporate decision-makers at executive and board levels, investors, and others are doing and saying about both health and safety and human capital. It concludes by outlining three areas where companies have opportunities to better connect these, which will enable the value from health and safety activities to be more accurately included in the overall human capital discourse.

2. The Evolving Understanding of Health and Safety



“Many of the participants see a precious opportunity to create a very different, richer engagement with their stakeholders on health and safety in this moment: an opportunity to build organizational and individual resilience, and a culture and behaviors that will better equip their companies to meet rapidly changing expectations.”

2020 ERM Global Health and Safety Survey

The health and safety function is evolving as it responds to new expectations around what it means to protect people and keep them safe.

This section explores the changes underway, why they are happening, and what this means in terms of the potential to make more direct connections between health and safety and human capital. To do this, we draw primarily on findings from the [2020 ERM Global Health and Safety Survey](#) (‘the ERM Survey’ or ‘the Survey’) as well as several other examples from broader developments in the field.¹⁸

Health and safety leaders' perspectives

The latest ERM Global Health and Safety Survey presents a comprehensive set of findings from interviews with 273 global corporate health and safety leaders. The Survey provides a wealth of information around the priorities and challenges facing health and safety functions today. Notably, 60 percent of survey respondents reported their organizations had suffered at least one fatality since 2018.

Improving this record is the central health and safety challenge that companies face, but other important factors were raised also. Below, we recap the Survey's nine main themes to help illustrate linkages between current health and safety challenges and the evolving expectations for investing in, managing, and disclosing human capital activities and performance.

3 Evolved approaches deliver results, putting the 'why' back into health and safety: Over three-quarters of ERM Survey participants identified deficiencies with their established health and safety processes. Ten percent expressed significant concerns about the value derived from them, either due to processes not being fit-for-purpose, or due to poorly implemented systems. Survey respondents cited nine evolved approaches (see Figure 1) that they believe capable of delivering extensive benefits because of how they support more people-centered approaches. The Survey analysis suggests that the way forward lies not in any one of the nine alone, but in ensuring they are all delivered with a singular focus on purpose.

1

Performance improvement is failing to keep pace with rapidly changing expectations: Ninety-two percent of interviewees believe stakeholder expectations on health and safety will increase over the next three years and that health and safety performance will increasingly impact business performance. Underpinning these expectations are regulatory drivers, the growing importance of ESG, investor pressure, the intense health and safety focus evident during the pandemic, and rising societal expectations. ERM Survey participants also observed that the function is facing increasing expectations to consider a wider range of issues addressing the 'whole person.' Finally, the Survey found that, as stakeholder expectations have increased, organizations are increasingly intolerant of any adverse impacts on people and their well-being at work, highlighting that the persistence of fatal accidents remains a crucial challenge for businesses.

2

Game-changing insights from the global pandemic: COVID-19 shed light on the impact that an event like a pandemic can have on business performance and resilience. The coronavirus forced companies to recognize shortfalls in the effectiveness of business continuity planning tools, but at the same time let them appreciate new-found modes of engagement between corporate leaders at the center and local management teams as they responded to the crisis. The virus also highlighted the need to better account for the 'health' element in health and safety – including mental health – and underscored the fact that new ways of working, including remote learning, are likely to be enduring. Survey participants observed that the perception of health and safety was elevated during the pandemic too, saying it will be important to ensure this elevation in perception endures longer-term.

4

Changing role of health and safety functions demands new capabilities: Survey respondents suggested that rising stakeholder expectations, higher levels of leadership engagement, the uptake of evolved approaches, and increasing use of data and technology require health and safety professionals to deliver on ever more issues. At the same time, only four percent of respondents said health and safety professionals are fully equipped to address the new needs that they are expected to address. Participants agreed that technical competencies were crucial, but suggested they are not enough on their own to arm leaders with the skills needed, and they mentioned several key non-technical skills needed as well. 'Communication, influencing and coaching skills' was the top perceived gap in leaders' competencies (see Figure 2). The report also observed that the health and safety profession is seen to be lagging behind other professions in identifying a fully multi-disciplinary set of capability needs.

Figure 1: Evolved approaches being deployed by survey participants



Source ERM Global Health and Safety Survey

5 Executive success and pitfalls in harnessing data and technology: The ERM Survey showed that data and technology are now core elements of health and safety programs. Investment in such tools has increased and will continue to do so, with companies expected to increase investment in data and technology by 20 percent over the next three years. These resources will help digitize core safety processes and provide real time access to safety data along with a range of other digital solutions. Although the uptake of technology has enormous benefits, with over 90 percent of respondents saying that their recent investments met or exceeded expectations, there are also challenges. This means deployment of these innovations will need to be driven by the needs of the people they are intended to serve.

6 Five key challenges call for advanced leadership development methods: When asked for their view on the most effective means of driving health and safety performance improvement, ERM Survey participant responses fell into five categories as shown in Figure 3. Survey participants agreed that leadership commitment and engagement is the top area. They observed that a new generation of business executives increasingly links health and safety to delivering better financial performance and maintaining a thriving workforce, and they said these leaders are focusing on developing a culture of care for people. Even so, while senior leadership attention on health and safety is increasing, current gains are not seen as translating into sufficient impact on operational front lines, where levels of risk tolerance were perceived to be higher.

7 The persistent challenge with contractor safety performance: Most ERM Survey respondents predicted that the use of contractors will continue to increase, with just 13 percent of Survey participants anticipating reductions. Respondents believe that, as contractors undertake more higher-risk activities, the long-term trend of increasing risk concentration in the contractor base will continue. The Survey showed that around two-thirds of organizations plan to change their approaches to contractor management over the next three years to enhance safety performance by developing and/or upgrading processes and standards, or by enhancing qualification, selection, and contracting processes.

8 An escalating crisis on mental health in the workplace: During the pandemic, mental health has moved up organizations' agendas. Ninety percent of Survey participants identified the subject as a growing issue for their organizations. However, insights shared by the respondents highlight near-systemic failure in addressing the rise, suggesting mental health may be building as a prominent threat to organizations' workforces, and that health and safety leaders need up-skilling in this area. Nearly 80 percent of the organizations involved in the study had established programs to address mental health issues, and 63 percent were planning new initiatives on mental health in the next three years.

9 Increasing cost of health and safety and changing investment priorities: Over the period 2018 to 2023, the ERM Survey predicts an almost 40 percent greater cumulative investment in health and safety, demonstrating the continuing and increasing priority organizations are placing on it. Technology, mental health, and leadership, culture and behavioral change were the top three investment priorities cited. As increasing investment means increasing costs, health and safety leaders need to carefully evaluate and communicate the benefits associated with different investment opportunities. This will help ensure that investments are appropriate in scale and that the value added by safety investments is clearly understood.

Figure 3: The five most effective means of driving health and safety performance improvement

Source ERM Global Safety Survey, ERM Global Health and Safety Survey

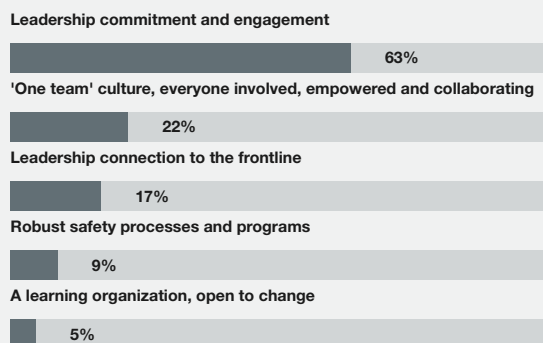


Figure 2: Six key non-technical competency development needs identified by survey participants



Source ERM Global Safety Survey, ERM Global Health and Safety Survey

Unpicking the human capital angle

The nine themes outlined above led us to make the following five observations about the realities of the world of health and safety and how it connects to managing and measuring human capital performance.

1 The ERM Survey revealed that the human element is too often missing in health and safety approaches but showed that health and safety functions are changing to address this.

As the Survey findings state: “Streamlining and better integrating the human element in core health and safety processes is one of the key innovations identified.” As the purpose of health and safety builds upon its core remit of risk minimization to include the pursuit of ambitious culture change agendas, the function is evolving from a delivery arm to a role more akin to consultant and coach. As a result, health and safety leaders are turning to brain science, human behavior models, and change management to find answers regarding how to influence and shape culture, all with an eye on better human capital management and performance. For example, ERM recently worked with health and safety professionals within a leading company who felt that they had maximized safety ROI through addressing conditions and engineering controls. ERM co-designed a new behavioral safety program for the company, which focused on caring for workers, engagement, collaboration, curiosity to drive discretionary effort, and better safety decision-making in order to raise performance further.

2 Health issues, especially those related to mental health, are a top priority for health and safety leaders.

The pandemic created a dramatic shift in the way in which we work, driving corporate leaders to rethink their approach to the health and well-being of their workforces. This was strongly demonstrated in the Survey results, where mental health was cited as a key area requiring competency development and investment to ensure long-term business performance and resilience. This kind of investment already exists – for example, many companies have long-supported community wellness programs, especially in the less-developed world – but one of the lessons of the pandemic may be that business needs to focus more deeply on health and wellness in more advanced economies also.

3 The health and safety function must evolve by working more closely with other parts of their organizations.

Highlighting challenges evident across the nine themes summarized above, the ERM Survey explains: “Functional leaders see ... an opportunity to build organizational and individual resilience, and a culture and behaviors that will better equip their companies to meet rapidly changing

expectations.” Indeed, ESG-oriented stakeholders expect companies to break down internal silos, engage cross-functional teams, and collectively examine all relevant ESG issues – including human capital issues ranging from traditional health and safety performance, to well-being, diversity & inclusion, and more. The Survey also observes that: “A sort of global, pan-organization breakthrough in recognition of health and safety has occurred in 2020: people understand why it matters and they realize they must play their part.”

4 The best health and safety leaders understand the connection between leadership and performance.

The ERM Survey shows increasing recognition that health and safety leadership is intertwined with business success. However, while many reported they see evidence of senior managers increasing health and safety engagement, some pointed to the need to develop business leaders’ engagement style. The Survey also suggests aspirational business leaders are connecting health and safety to company culture. This aligns with broader understanding in health and safety circles that one of the best leading indicators of safety performance is the involvement of leadership. Box 1 provides an example of a program developed around the use of leading indicators, including metrics to assess leadership effectiveness.

5 Health and safety leaders see an opportunity to better connect the value derived from their function to other parts of their organizations.

The ERM Survey concludes: “Organizations can do much more to increase the value derived from their enormous economic investment in health and safety ... so it yields much greater impact on performance and outcomes.” One interviewee observed “the need to recognize that safety is much more embedded in our organization than previously.” Since human capital management involves other corporate departments such as human resources and is relevant up to the board of directors, businesses need systems capable of capturing all material human capital information, regardless where it lives, to ensure it is considered. One way to demonstrate value is to calculate the value that a program brought to a particular project in financial terms. This approach is illustrated in the example provided in Box 2.

Overall, the ERM Survey reinforces the understanding that health and safety leaders are on the frontline of human capital management evolution. These leaders recognize the need to keep health and safety evergreen to keep pace with evolving demands, including the need to focus on the human element. Survey respondents also conveyed that breakthroughs in health and safety performance will depend on concepts like leadership engagement and culture.

Box 1 Vision Zero – An example of the power of leading indicators

Developed by the International Social Security Association, ***Vision Zero: 7 Golden Rules – for zero accidents and healthy work*** is a transformational approach to the prevention of accidents at work and occupational diseases. Based on the concept that all accidents, harm, and work-related ill-health are preventable, Vision Zero proposes seven golden rules for Safety, Health, and Well-being (SHW):¹⁹

- 1 Take leadership – demonstrate commitment
- 2 Identify hazards – control risks
- 3 Define targets – develop programs
- 4 Ensure a safe and healthy system – be well-organized
- 5 Ensure safety and health in machines, equipment and workplaces
- 6 Improve qualifications – develop competence
- 7 Invest in people – motivate by participation

The golden rules are supported by 14 leading indicators. As explained in the **supporting guide** for implementation of the Vision Zero framework, leading indicators are often process-focused and are proxies for activities assumed to improve SHW.²⁰



Box 2 Shell: The business value derived from building a culture of care

In a **2020 paper**, Shell presented its review of the role of its health function in contributing to the performance of Shell capital projects over a ten-year period.²¹ Within Shell, the health function is identified as a critical enabler of what the company refers to as a ‘Culture of Care’ – the kind of culture in capital project organizations that leads to observable and functional behaviors and demonstrated values and ways of working which make the workforce feel engaged, integrated, committed, and cared for. Shell defines the key components of such a culture as: Psychological Safety, Inclusion, Autonomy, and Connectedness.

The Shell review observed that, when acting as a catalyst of a strong safety culture, its health function outperformed in terms of value provided by having a positive impact in three strategic areas: engagement and participation, safety records, and productivity. Shell perceives that its Culture of Care strategy has become a differentiator and a competitive advantage for Shell in the way it does business.

3. The Evolving Understanding of Human Capital

Constantly evolving, the topic of human capital is now front and center for investors, companies, and other stakeholders.

Human capital is gaining increasing attention from investors who recognize its relevance to business performance.

This section explores the background to capitals thinking generally and human capital in particular, outlining why it is of growing interest to investors and where health and safety currently fits into human capital discourse. As human capital metrics and disclosure practices evolve, there are opportunities to streamline and better integrate the way that health and safety and other functions in business are coalescing, communicating and collaborating around companies' human capital management.



Capitals and value creation

The concept of ‘capitals’ conveys the dynamic relationships that businesses have with the financial and non-financial assets on which their success depends.²² Capitals can range from social, human, and natural, through to manufactured, intellectual, and financial.²³ As the [Social & Human Capital Coalition](#) explains, capitals thinking “enables organizations to identify, measure and value their impacts and dependencies on natural, social, human and produced capital stocks, allowing them to develop systemic understandings of the value they create for and receive from nature, people, society and the economy to inform their decision-making.”^{24, 25}

As means of determining corporate value continues to expand from only measuring tangible assets to include value derived from intangible assets, organizations need to re-think their approach to accounting and disclosure.

As stated in the [Social & Human Capital Protocol](#):

Even when CEOs and other decision-makers recognize the value of assets such as community relationships or employee talent, they are unable to translate this value consistently into terms that people inside and outside their businesses can understand, trust and, most importantly, use. As a result, businesses struggle to embed these factors into processes such as strategic decision-making and communications. In many cases, this leads to undervaluing and consequently, underinvesting in the people and relationships on which businesses and society depend.²⁶



Investor interest in human capital management

Investors are concerned with human capital management and performance because they see its potential to add value to their portfolios. Effective human capital management is perceived to provide a [potential competitive advantage](#) because it demonstrates sound business practices likely to differentiate a company when competing for top talent.²⁷ It can also increase workforce engagement and stability. For these reasons, many investors are beginning to look for board level oversight of human capital management strategies.

Investors are not only looking for evidence of good human capital management inside companies they own, they are applying its principles inside their own organizations. State Street devotes a [section](#) of their 2019 Corporate Responsibility Report to their human capital approach, which they connect to their long-term success.²⁸ Similarly, BlackRock made a human capital [commitment](#) that recognizes the degree to which the firm’s continuity is contingent on their people and their culture.²⁹ Many investors also support and participate in human capital initiatives like the [Human Capital Management Coalition](#) and ShareAction’s [Workforce Disclosure Initiative](#), which advocate for increased corporate disclosure on human capital topics, including specific health and safety factors.^{30, 31}

Investors are concerned with human capital management and performance because they see its potential to add value to their portfolios.

Human capital metrics and disclosure practices are rapidly evolving

As Harvard Law School outlined in their [report](#), investor perception of what companies need to manage and enhance in terms of human capital management has become more diverse over time.³² Performance standards and corporate ESG ratings are constantly being updated to reflect better understanding of drivers of long-term value creation and more effective ways to manage and measure human capital issues.

Terms used to describe elements of human capital include board diversity, employee engagement, diversity and inclusion, health, wellness, well-being, and health and safety. As pointed out in the October 2020 report from the SustainAbility Institute by ERM *Building Business Resilience for the Decade of Action*, companies face growing expectations to deliver on an increasing and evolving range of issues, yet there is currently no standard approach or agreement as to how to define, measure, value, manage, or disclose corporate human capital management and performance information.³³

This results in a lack of comparability between companies' data, even within the same industries. It also leaves investors, current and potential future employees, and other stakeholders seeking bespoke information, which indicates companies are not capturing and/or effectively communicating the stories of human capital ingenuity already occurring within their walls, including within their health and safety functions.

The last few years have seen thinking on human capital metrics develop rapidly. This shift has been driven in part by movements and developments such as #MeToo and Black Lives Matter, and by COVID-19's impacts on work and work-life balance. Additionally, GRI is in the process of revising the human rights-related topics within its standard, and the organization is simultaneously working with the Robert Wood Johnson Foundation to promote the Culture of Health for Business (COH4B) framework.^{34, 35}

At the same time, SASB is assessing human capital management themes within its sector standards to determine issue materiality and universality and formulate recommendations to incorporate findings into their standard-setting process.³⁶ Companies have the opportunity, through participation in SASB's public consultations, to directly influence and shape these frameworks.

Box 3 provides more commentary around the SASB public comment period and the significance this has for companies. Regulators are getting in on the act too, including the U.S. Securities and Exchange Commission (SEC), which recently added human capital as a disclosure requirement. Further thoughts around the SEC's Regulation S-K amendment are provided in Box 4.

Annex A provides a detailed list of key milestones and developments in the health and safety and human capital space occurring between 2017 and 2020 developed by ERM in collaboration with L'Oréal.



Box 3 SASB Standards Evolution and Public Comment Period

A good example of the dynamism of the human capital debate at the time of writing this report is provided by SASB.

The SASB public comment period on human capital management themes running December 2020 through February 2021 offers promise that 2021 will see guidelines for human capital management and disclosure become clearer for both companies and investors.

SASB’s efforts will bring together much of the leading thinking on human capital management and facilitate a global, multi-stakeholder process aimed at identifying the most material and relevant disclosure topics.

Given SASB’s uptake in recent years, participation in this consultation period provides companies an important opportunity to bring their own health and safety and human capital management perspectives to bear in the formulation of SASB’s human capital definition.³⁷

Box 4 SEC Regulation S-K amendment

The SEC **amended** its Regulation S-K, which governs disclosure requirements for SEC filings, in August 2020, adding human capital resources as a disclosure topic.³⁸

SEC Chairman Jay Clayton noted in Regulation S-K’s adoption hearing that human capital helps drive long-term business value.

While some stakeholders suggested that the principles-based approach adopted by the SEC does not go far enough (perceiving it still leaves too much room for companies to report in different ways), these sorts of developments will dramatically influence the way corporations measure, manage, and report on material ESG issues in the future, including human capital metrics.

A need to reassess optimal business organization around human capital management

Historic discussion inside companies on human capital management has most often happened in the context of board level governance and oversight, with boards tending to consider human capital management via a human resources lens, and sometimes an ESG lens, but rarely delving into the health and safety arena.

For instance, in the ERM Survey, 19 percent of participants observed that they were unable to evaluate the effectiveness of their mental health programs because they are managed by other functions such as human resources. In addition, investors are more likely to ask for information pertaining to diversity and inclusion and/or attraction and retention than to ask for statistics and details about how companies manage well-being or fatalities.

As the centrality of human capital management to business performance has become more widely accepted, and as its definition has evolved to encompass an increasing range of topics, there are clear opportunities to streamline and better integrate the way that health and safety and other functions in business are coalescing, communicating, and collaborating around companies’ human capital management.

This suggests that multiple internal functions need to come together to share data and experiences and collectively paint a picture of the value brought from various business activities to human capital management. Examples of the varied business functions that need to be involved in a fully integrated approach to human capital performance are provided in Figure 4.

Figure 4: Business functions needed for optimal human capital management



4. Connecting Health and Safety to Human Capital Performance

Companies that effectively connect health and safety to human capital performance create significant value.

The findings of the ERM Survey state clearly that: “Organizations can do much more to increase the value derived from their enormous economic investment in health and safety, so it yields much greater impact on performance and outcomes.”

In this section, we suggest three areas where companies can take action in order to capture that value. These are:

- ▶ **Company Culture**
- ▶ **Governance**
- ▶ **Transparency & Disclosure**

The observations on the three areas mapped below are relevant for companies regardless of the strength and maturity of their current health and safety programs. Companies that already have a strong health and safety tradition can evaluate and improve how their accumulated knowledge is integrated into broader business decision-making, while companies with less mature approaches can learn and benefit from the experiences of others as they build up their systems.



Area 1

Company Culture

Developing a culture of care reflects human capital management best practice. It begins with ensuring health, safety, and well-being.

Health and safety excellence is fundamental to operating in a way that delivers on a company's duty of care for employees and other workers. This connects to both the 'S' and the 'G' in ESG. In times of crisis, health and safety leaders are often elevated in prominence within organizations. Company culture and leadership are crucial to ensuring health and safety voices are heard in good times also. Adaptations that enable this include:

- ▶ **Strong leadership:** Backed up through the findings of the ERM Survey, investment and involvement of leadership in the implementation of health and safety programs is one of the most important leading indicators of safety performance. By instilling and supporting strong leadership, companies can improve health and safety outcomes. As an integrated approach to human capital is recognized as an essential element of business resilience, such investment in leadership will yield results in terms of its contribution to overall business value creation.
- ▶ **Caring cultures:** Companies can unlock value derived from health and safety programs by developing a culture of care. This is at the heart of L'Oréal's approach, whose story we describe more fully in Box 5. (Exploration of the impact of building a culture of care was also featured in the Shell case study presented in Box 2.) When employees see such investments backing up company statements about valuing people, they feel more valued themselves, which has been shown to increase loyalty, decrease turnover and boost productivity.³⁹
- ▶ **Investment not cost:** Health and safety is sometimes treated as a cost center that is expected to uncover efficiencies year over year. The findings of this paper suggest that health and safety leaders have an opportunity to increase understanding in their organizations as to how and why their role and remit is evolving so significantly. Conveying the value of what they do through human capital terminology and metrics can help express value more clearly to critical stakeholders, including other senior leaders in the business, boards of directors, and investors. It can also convey the importance of internal investment to enhance the connections between health and safety and human capital.





Box 5 How L'Oréal's health & safety approach puts people at the heart of sustainability

Malcolm Staves, Corporate Health & Safety Director at L'Oréal is passionate about how health and safety creates value for business within a people-centered sustainability framework, which he describes as “putting people back into sustainability.”⁴⁰ In an interview with ERM, Malcolm explained that L'Oréal's approach to health and safety includes three key principles, each of which are brought to life via a flagship program.

Rather than being seen as actions promoting safety for safety's sake, their success lies in their embedding into company culture and ensuring people understand the value the programs provide them as individuals.

- ▶ L'Oréal's LIFE Program delivers its Risk Management principle. LIFE or 'Life changing Incident or Fatality Event' is a system addressing Serious Injuries and Fatalities (SIF), which are usually low probability, high impact events. Choosing to use the term 'LIFE' rather than the standard 'SIF' helped stakeholders understand the program and maximized buy-in from the factory floor right up to senior management. L'Oréal's LIFE program goes to the heart of the fundamentals of safety, ensuring workers feel safe at work and that everyone goes home every day, and makes clear that LIFE standards are global and non-negotiable.
- ▶ Safe@Work, Safe@Home embodies L'Oréal's Moving Beyond principle. Launched in 2017, Safe@Work, Safe@Home delivers L'Oréal objectives including ensuring safety within the company as well as exporting safety culture in order to positively impact individuals outside of work, their families, and local communities. Staff are encouraged and empowered to share learnings beyond L'Oréal, resulting in a 'hummingbird effect,' where many people taking small actions can have huge cumulative impact. As part of the program, L'Oréal sponsors a worldwide award presented by the Royal Society for the Prevention of Accidents that promotes safety outside of the work environment.
- ▶ Finally, L'Oréal's Ergonomics Attitude Program brings to life its Driving Towards Excellence principle. Established in 2011 and driven by internal ergonomic champions with the involvement of line managers, this program ensures work activities do not create injury or illness over the long-term. Key to program success is making people feel they are working in a pleasurable environment. This not only makes people feel valued – Malcolm also observes that it builds team spirit, supports retention, and increases engagement in other company initiatives.

Area 2

Governance

Creating cross-functional teams that include health and safety professionals enhances human capital management, increases business resilience, and improves ESG performance.

Human capital management has often been perceived as belonging to human resources and boards of directors. Professionals in health and safety functions bring extensive experience in the systems and processes that support human capital management including operating models, management frameworks, and, increasingly, a focus on holistic health. There is an opportunity for this experience to become even better connected to corporate human capital strategies. To achieve this, we suggest the following:

▶ **Renewed organizational structures that put employees at the center:** Heightened internal and external attention to ESG performance, including its human capital dimensions, means companies need to develop integrated approaches to worker care. This requires that silos be broken and for cross-functional teams to be brought together to present the full picture of all activities contributing to the development of human capital within organizations.

There is a tremendous opportunity to rethink organizational structures to eliminate redundancy, identify and fill gaps, strengthen messaging to stand out in crowded communication channels, and emphasize the care and well-being of people.

This often means working to integrate health and safety more deeply into corporate planning and goal-setting processes as opposed to health and safety teams simply serving as execution arms.

▶ **Common language:** Health and safety and human capital connect when organizations find common language that embeds these disciplines into an organization's broader sustainability agenda and overall corporate strategy. Examples of this have surfaced recently given the ways mental health and wellness have been elevated, discussed, and addressed under COVID-19.

It can also be accomplished by conveying the opportunity and the broader benefits that health and safety activities offer in financial terms, for example in terms of net present value. Health and safety teams can also more actively partner with externally facing departments to ensure that their company's health and safety story is communicated in a way that expresses the company's commitment to its people.



▶ **Reimagining governance:** Good governance is a fundamental part of companies' duty of care. Governance systems and structures can be leveraged to connect health and safety and human capital and enhance overall corporate performance. Increased investor interest in ESG including human capital is just one reason for companies to measure, manage, and report on human capital as well as employee-related health and safety metrics. This can help show employees, investors, and other stakeholders how a company treats its people. This also provides an opportunity to better convey caring for people in internal and external communications and to express how such caring supports resilience and overall performance.

There is a tremendous opportunity to rethink organizational structures to eliminate redundancy, identify and fill gaps, strengthen messaging to stand out in crowded communication channels, and emphasize the care and well-being of people.

Area 3

Transparency & Disclosure

Investor, customer, employee, and community demands for ESG performance data increasingly include human capital management information, aspects of which exist within the health and safety function.

The ESG field comprises a dynamic ecosystem of standard-setters, investors, regulators, research firms, and other stakeholders. Due to their interest and influence, demand for sustainability and/or ESG information is rising. Since health and safety professionals manage human capital-related information, they can bring valuable insight to their company's human capital disclosures.

ESG programs and strategies should therefore explore comprehensive and cross-functional involvement. This will enable the creation of a more comprehensive performance picture capable of improving a company's overall performance and standing among stakeholders. Three ways to approach this are outlined below.

► **Stakeholder understanding:** It is up to companies to understand the expectations of their stakeholders (e.g., their largest investors) and take control of their own ESG narratives. This includes the way a company manages, improves, and communicates about human capital performance.

The current disconnect between health and safety and human capital data creates an opportunity for companies to link information from these related sources and use it to differentiate themselves from their peers.

Measured and valued properly, health and safety information has the potential to shift the way markets assess corporate human capital performance. Such information is either translated through ESG ratings or comes out as investors, customers, and other stakeholders ask about ESG and human capital performance. In essence, any modern company needs to be ready to disclose a range of ESG information, including material outlining how the company treats its people.

► **Metrics mastery:** As sustainability reporting increases and standards bodies evolve, the definition of human capital management is evolving as well. Health and safety professionals can enhance ESG disclosures by partnering with other functions like human resources, sustainability, ESG, and legal, each of whom have access to information that can help respond to evolving disclosure requests around human capital.

The current disconnect between health and safety and human capital data creates an opportunity for companies to link information from these related sources and use it to differentiate themselves from their peers.



In addition, sustainability standards often develop through multi-stakeholder processes, meaning health and safety professionals have the opportunity to shape future reporting guidance and specific metrics by tracking and participating more actively in these initiatives. Examples include SASB and GRI's public consultations and human capital-related initiatives.

Organizations can also monitor initiatives such as ShareAction's Workforce Disclosure Initiative, the Human Capital Management Coalition, [JUST Capital](#), developments that come from field activity like the SASB/IIRC merger announced late 2020, and the IFRS Foundation's work on Sustainability Reporting Standards.⁴¹ Such effort can help companies keep ahead of the curve on how reporting and disclosure will evolve.

► **Total Worker Health:** Many observers note a significant delta between how investors and companies view the materiality of health and safety and its contribution to a broader understanding of human capital management.

This gap may contribute to misalignment regarding which areas are critical to address via resourcing, or make it difficult for investors to identify potentially material risks and opportunities in connection with health and safety.

Both investors and corporate issuers could benefit from taking a Total Worker Health-based approach (see Box 6) to re-evaluate the materiality of health and safety across industries and companies, eliminating potential blind spots and evolving measurement of this critical issue to meet the changing landscape of the global economy in the next decade.



Box 6 Total Worker Health

Total Worker Health is a concept developed by the US National Institute for Occupational Safety and Health. It is defined as “policies, programs, and practices that integrate protection from work-related safety and health hazards with promotion of injury and illness-prevention efforts to advance worker well-being.”⁴²

The Total Worker Health concept builds on the fact that, while traditional health and safety programs have tended to concentrate on protecting workers from the harms arising from work itself, we also need to recognize “that work is a social determinant of health.... Job-related factors such as wages, work hours, workload, interactions with co-workers and supervisors, and access to paid leave impact the well-being of workers, their families, and their communities.”⁴³

Five defining elements comprise the Total Worker Health concept:⁴⁴

- 1 Demonstrate leadership commitment to worker safety and health at all levels of the organization.
- 2 Design work to eliminate or reduce safety and health hazards and promote worker well-being.
- 3 Promote and support worker engagement throughout program design and implementation.
- 4 Ensure confidentiality and privacy of workers.
- 5 Integrate relevant systems to advance worker well-being.

5. Conclusion

It is time to build on growing momentum and shape a future that ensures that health and safety and human capital are better connected.

This report explored the evolution of both health and safety and human capital performance management, then looked at how their integration helps companies create value.

The ERM Survey results summarized in this report shine a spotlight on the top issues health and safety leaders face today. These challenges encompass long-standing and enduring challenges including the persistence of fatal accidents as well as emerging challenges related to the expanding boundaries and expectations of their function. It also highlighted the evolving ways of working they are embracing in order to respond.

Building greater collaboration between different business functions including human resources, health and safety, legal, investor relations, and others can result in a higher performing organization due to the full appreciation, application, and management of human capital. This in turn delivers greater resilience and value to businesses, as the learning from years of health and safety expertise is better understood and fed into company decision-making and investor considerations.

We provide the following takeaways summarizing what we've learned from this report's exploration of the evolution of health and safety and human capital as well as ways to connect them to create business value.

- ▶ **Employees must be at the heart of company strategies.** COVID-19 and other events in recent years have reinforced that people are central to business resilience and that a company's people are its most precious and valuable assets. Companies that declare people-centered values need to reflect this in how they operate day to day.
- ▶ **Putting employees at the heart of resilience requires an integrated approach and collaboration among multiple business functions.** The challenges created by the pandemic have shown how important it is to break through organizational silos and create more value for business by articulating and appreciating the full range of company activities that build human capital. This is the time to demonstrate how health and safety is a foundational element of this and for organizations to talk a more common language around human capital.
- ▶ **Integrated approaches appeal to stakeholders.** Thinking about human capital in an integrated manner makes stakeholder engagement on the topic more effective and helps companies respond to the dynamic evolutions going on in this field. Businesses need to seize this unique moment to connect health and safety with ESG and human capital by taking part in standards development, public consultations and other activities that enable companies to play a role in actively shaping and influencing future reporting guidance.
- ▶ **To sustain this focus on people, a new generation of business leadership will be needed.** A key part of the human capital story will depend on whether and how organizations mobilize, grow, and shape next generation leaders to foster cultures of care and to deliver on company promises to put people at their center.

Given the dynamism in the health and safety and human capital fields and the importance of the topics they encompass, companies should seize the opportunity to influence the future of human capital management and metrics and how they connect to health and safety as well as ESG-related reporting and disclosure.

There is huge potential benefit to integrating health and safety learnings and expertise into human capital thinking. Developments of the past few years provide the opportunity for a thoughtful, multi-stakeholder approach to valuing business's most important asset – people – and fully understanding the contribution they make to business resilience and success.

There is huge potential benefit to integrating health and safety learnings and expertise into human capital thinking.

Annex A: ERM's Exploration of the Human Capital Landscape

The following are key developments that have shaped the current connection between health and safety practices and metrics and human capital management and measurement since 2017.

- **March 2017** – Center for Safety & Health Sustainability (CSHS) holds first global [human capital workshop](#) to discuss connection between health and safety and human capital. Discussions among the multi-stakeholder group identified a need for greater collaboration between the health and safety field and standards setters (e.g. Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC) and International Organization for Standardization (ISO)).⁴⁵
- **July 2017** – [Human Capital Management Coalition \(HCMC\)](#) files a rulemaking petition to the U.S. Securities and Exchange Commission (SEC) urging the adoption of standards requiring listed companies to disclose information on human capital management policies, practices, and performance.⁴⁶
- **October 2017** – At the second CSHS Human Capital Workshop, Harvard Law School's Pensions and Capital Stewardship Program released [Corporate Disclosure of Human Capital Metrics \(October 2017\)](#) outlining the evolution of various human capital definitions put forward by investors. The GRI, SASB and IIRC presented their own work streams on human capital and the confluence with health and safety.⁴⁷
- **March 2018** – CSHS hosts its third [human capital workshop](#) featuring a presentation from Corporate Knights on their study of health and safety and human capital disclosures across almost 6,000 companies. GRI, SASB and IIRC provided an update on their latest work streams, including GRI 403, which was specifically developed to focus health and safety metrics.⁴⁸
- **March 2018** – BlackRock outlines its thinking on [human capital management](#) and how it will engage with management and boards on specific human capital issues, including health and safety issues.⁴⁹
- **April 2018** – The World Business Council for Sustainable Development (WBCSD) launches the [Social & Human Capital Coalition](#) with a mission to create a world that understands the value of putting people and society at the heart of decision-making.⁵⁰
- **October 2018** – SASB releases its codified [Standards](#), which include guidance on human capital management issues, such as labor practices, employee health and safety, employee engagement, and diversity and inclusion.⁵¹
- **November 2018** – GRI releases its update to its occupational health and safety reporting standard ([GRI 403](#)) to ensure its alignment with internationally agreed best practices for occupational health and safety management and reporting.⁵²
- **February 2019** – The Social & Human Capital Coalition launches the [Social & Human Capital Protocol](#), a decision-making framework for organizations looking to identify, measure, and value their direct and indirect impacts and dependencies on social and human capital in terms of business risks, opportunities, costs, and benefits to society.⁵³
- **April 2019** – CSHS hosts fourth and final human capital workshop at the L'Oréal Headquarters in Paris, France. Leaders from EcoVadis, CDP, ShareAction's [Workforce Disclosure Initiative](#) and ERM present their latest studies connecting health and safety and human capital. Representatives from GRI, SASB, IIRC and ISO share latest work connecting the topics.⁵⁴
- **June 2020** – The Robert Wood Johnson Foundation and GRI launch the [Culture of Health for Business \(COH4B\)](#) framework which combines a range of health and safety and human capital practices that influence the determinants of health and have positive health and business outcomes.⁵⁵
- **August 2020** – [U.S. SEC releases changes to Regulation S-K](#), which focuses on companies' non-financial reporting requirements, including around human capital management.⁵⁶
- **September 2020** – The World Economic Forum publishes [Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation](#), a report outlining a set of 21 core and 34 expanded 'Stakeholder Capitalism Metrics' for companies to use to align their financial reporting with environmental, social, and governance (ESG) indicators.⁵⁷
- **November 2020** – SASB announces the [Stakeholder Consultation phase of their Human Capital Research Project](#), which will run from mid-December to mid-February.⁵⁸
- **November 2020** – The Society for Corporate Governance publishes their inaugural corporate disclosures coming after the recent [SEC Regulation S-K](#) update.⁵⁹
- **November 2020** – IIRC and SASB [announce](#) their intention to merge into one unified organization, the Value Reporting Foundation. This directly responds to calls from investors and corporates to simplify the corporate reporting landscape on the drivers of enterprise value.⁶⁰

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The SustainAbility Institute is ERM's primary platform for thought leadership on sustainability

The purpose of the SustainAbility Institute by ERM is to define, accelerate, and scale sustainability performance by developing actionable insight for business. We provide an independent and authoritative voice to decode complexities. The Institute identifies innovative solutions to global sustainability challenges built on ERM's experience, expertise and commitment to transformational change.

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