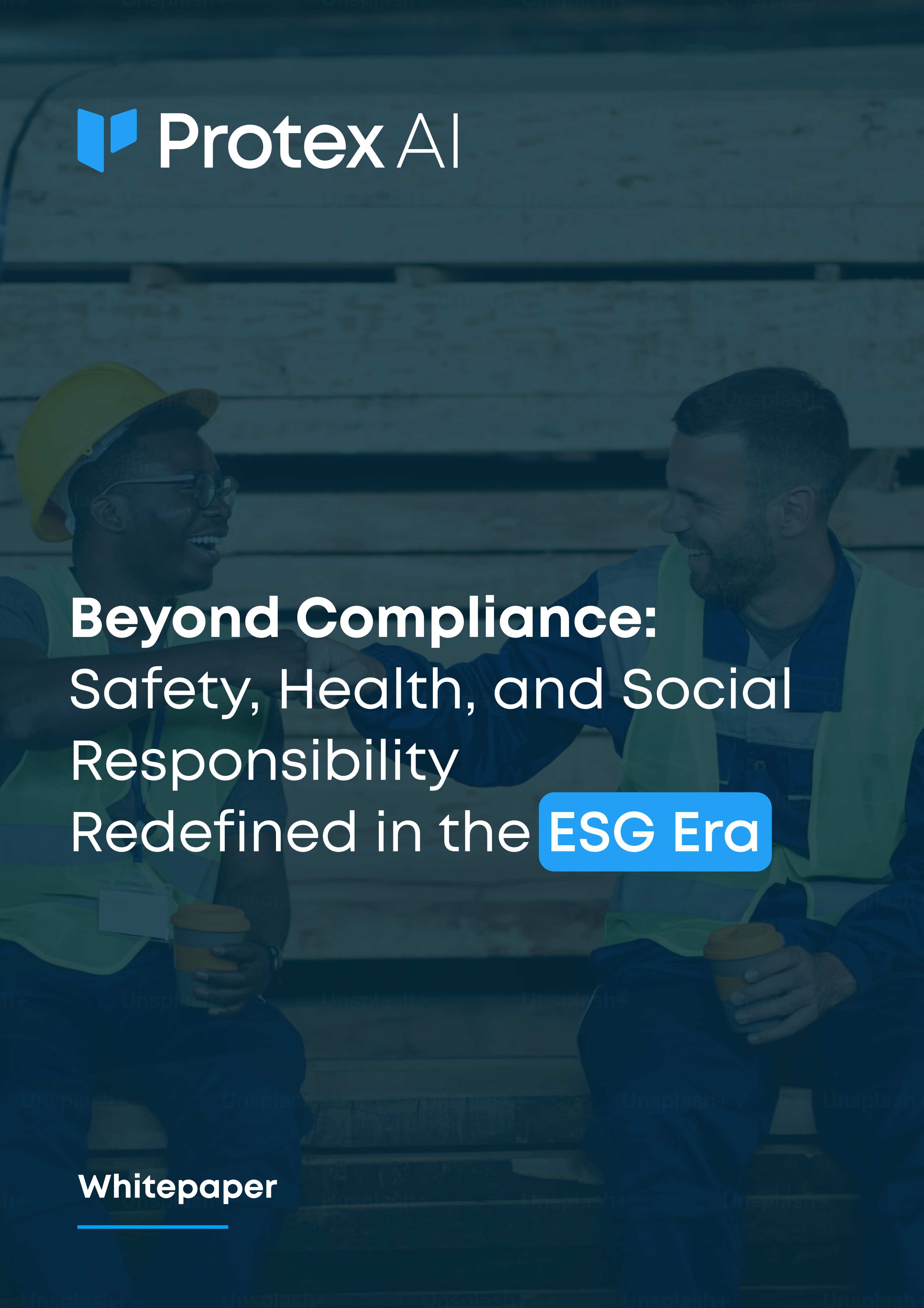


Protex AI

Beyond Compliance: Safety, Health, and Social Responsibility Redefined in the ESG Era

Whitepaper

Beyond Compliance:
Safety, Health, and Social Responsibility Redefined in the ESG Era

ESG, short for **environmental, social and governance**, is a term that started in the world of corporate investment but has spread far beyond it, to act as a new shorthand for businesses' actions to manage their impacts beyond simply generating profits for shareholders.

It has superseded sustainability in many areas as the term to describe the drive to manage businesses with accountability to the rest of the world and to use resources in a way that does not disadvantage current and future generations.

The three elements of ESG

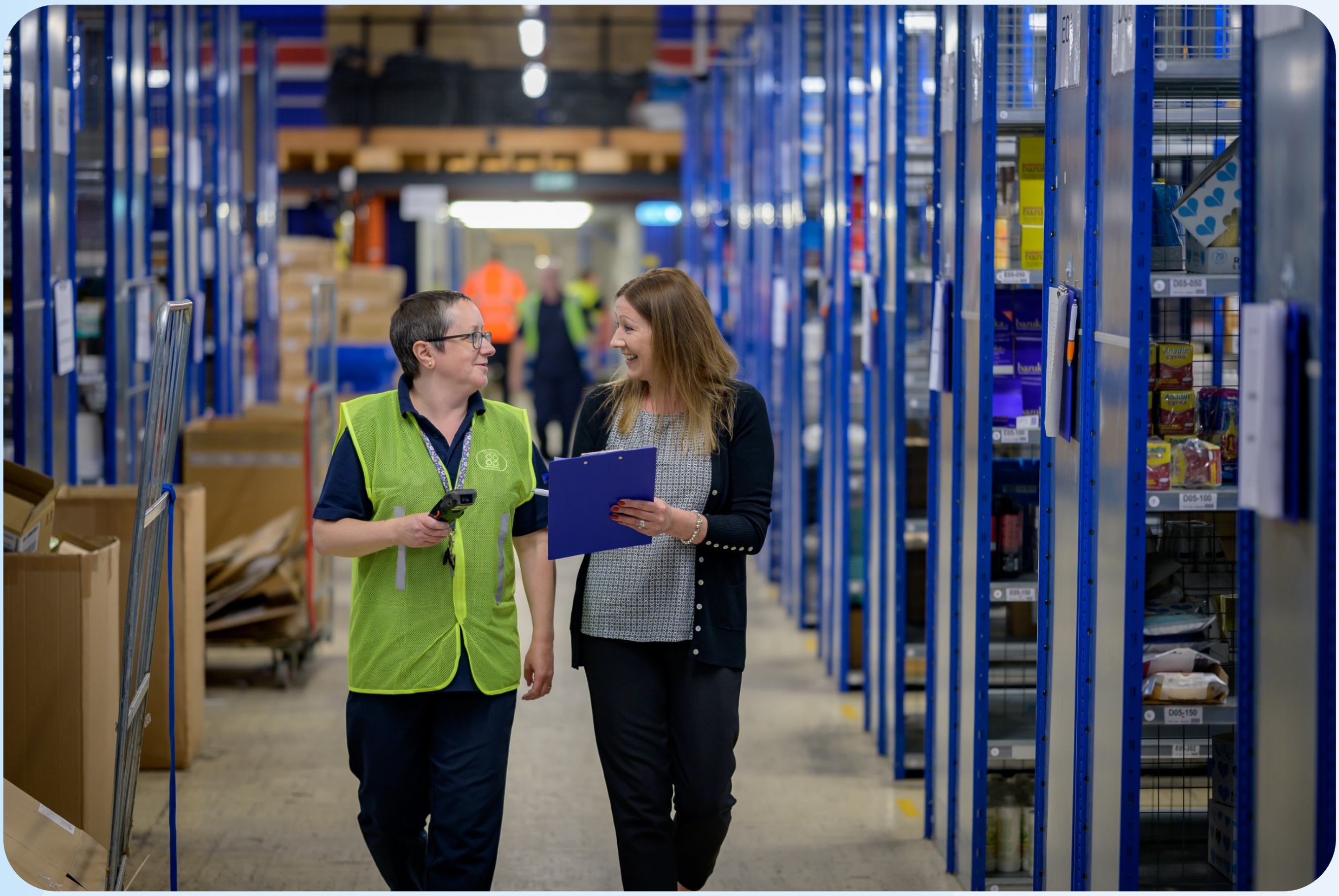
- **Environmental management**
- **Social responsibility provisions**
- **Transparency and accountability structures**

ESG is the latest iteration of a principle that goes back centuries, that businesses owe duties to their employees and to wider society. From the 1970s this was formerly known as corporate social responsibility. As understanding grew of the scale of human impacts on the natural environment this social concern was overlaid by calls for organizations to minimize pollution and more recently to manage down their carbon emissions.

But if the social element has been initially overshadowed by environmental concerns in expectations of sustainability reporting, there has been a parallel increase in requirements for business to meet minimum standards of care for employees through regulation. Revisions and additions to safety and health law in jurisdictions including the EU and US in the late 20th and early 21st centuries have created frameworks for protection from work hazards, taking in everything from work at height to chemicals exposure.

Most mature organizations choose to go beyond these legal minimum standards for business and reputational reasons.

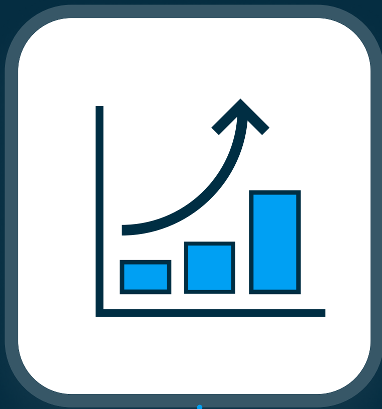
Now, the social indicators, included in ESG requirements from investors and the fund managers they employ, are pushing safety and health further up the corporate agenda. To maintain investor confidence and high levels of investment, corporations are expected to demonstrate their commitment to protecting workers and maximizing productivity through their own investment in the best available safety technology and techniques.



The rise of ESG

Pressure on business for more management, measurement and reporting in line with ESG principles has come from multiple stakeholder groups, each with its own agenda for more responsible and better managed businesses.

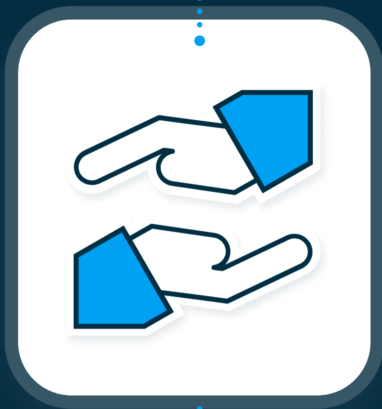
Investor demand



Led by the large institutional pension funds with billions of pounds or dollars invested on behalf of churches and local governments, investors have increasingly sought to assess the sustainability performance of any corporation, looking first at issues such as pollution control and carbon management, but now extending further into modern slavery and human capital.

The institutional investors employ fund managers to handle their investment and these asset managers have developed screening criteria to meet their biggest clients' priorities.

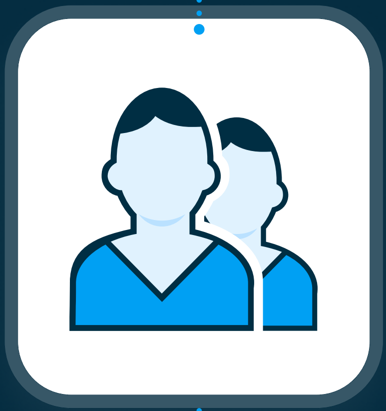
Public interest



Public interest in the good and bad behavior of businesses has grown over the decades. Corporations with poor pollution control or that allow exploitative labor practices have found themselves facing boycotts of their goods and services. What was once simply reputation management has evolved into the "social license to trade", with its implication that permission can be withdrawn if a business does not act as a good corporate citizen.

Demanded by customers

The combination of pressure from investors, regulators and the public for management of social and environmental impacts has resulted in organizations looking beyond their immediate operations to the impacts of their suppliers. The public sector has been prominent in exercising supply chain pressure. Local authorities have extensive prequalification procedures for potential suppliers.



Since 2021 any business that does not publish a "clear and credible" carbon reduction plan has been excluded from bidding for UK government contracts worth more than £5 million a year.

Hedged by regulation

ESG management and reporting is increasingly a non-voluntary activity for larger businesses as a result of disclosure regulations imposed by governments and stock exchanges.

Examples of regulatory pressure include the EU Corporate Sustainability Reporting Directive (CSRD) which is expected to affect around 50,000 businesses trading in the European Economic Area progressively from 2024.

Previous sustainability disclosure standards are now being rolled up into a global initiative by the International Sustainability Standards Board (ISSB) which will issue a framework for business to report climate-related and other financial sustainability-related impacts.

The social pillar

The so-called social pillar of sustainability – the S in ESG, or the people element in the triple bottom line of people, profits and planet – is a latecomer as an ESG priority

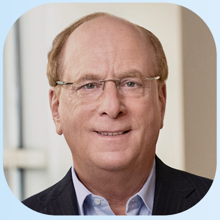
Sustainability reports by businesses commonly contain tens of pages detailing carbon management and responsible use of materials but only two or three on their work to protect or enhance the lives of people. In many cases these pages have said as much about ensuring ethical labor conditions at the remote end of supply chains or outreach work with communities in which the company operates as about protecting their direct workforce.

United Nations Global Compact

The world's largest corporate sustainability initiative – **the United Nations Global Compact** – defines social sustainability as "about identifying and managing business impacts, both positive and negative, on people." The positive social impacts business can make are many, including promoting good mental and physical health, maintaining well-being, encouraging equality, diversity and inclusion and ensuring fair pay. The main negative impact businesses are expected to avoid is harming workers and anyone else their activities affect, either in the short term by injury, or in the longer run by exposure to substances or circumstances, from asbestos to excessive stress, likely to shorten their lives or impair their quality.

Minimum levels of safety and health have long been established by regulation. Until recent decades, these statutes – and the possibility of penalties for organizations that breached them - were the main benchmarks businesses used in setting OSH standards. But as the discipline matured, many organizations saw that there was value, to their reputations as employers as well as to their sickness absence costs, in doing more than the minimum set down in the law. This has led to developments in everything from lifting aids to assist with manual handling, to mental health first aid provision and sophisticated use of data analysis in identifying incident patterns and predicting hazard hotspots.

The ESG and sustainability agenda has added external pressure to this impetus to raise levels of employee protection. Investor interest in ethical standards has increasingly extended to take in social concerns. Employee health and safety is the bedrock of social responsibility, since the part of a community an organization can influence most socially is the part it employs, either directly or indirectly through its supply chain. Ensuring no significant harm comes to those workers is the foundation on which all the other social elements of equality, diversity and well-being can be constructed.



Larry Fink, chief executive of BlackRock, noted in an open letter to business published in December 2022 that the COVID-19 pandemic had fundamentally changed the employment relationship and increased the expectation that workers will be valued and nurtured.

"At BlackRock, we want to understand how this trend is impacting your industry and your company," said Fink. **"What are you doing to deepen the bond with your employees? How are you ensuring that employees of all backgrounds feel safe enough to maximize their creativity, innovation, and productivity?"**

Investors and fund managers, or the ratings agencies they use to provide ESG data may use certification to voluntary OSH standards as a proxy for detailed evidence of safety and health management or to show commitment to higher OSH standards.

In turn, many of the organizations whose shares they decide to hold or sell choose their suppliers according to whether or not they have these certifications.

GRI

403

GRI 403, the Global Reporting Initiative health and standard reporting standard includes requirements for businesses to give information on their occupational health provision, safety training arrangements, as well as disclosing, in its latest version, their accident and ill health metrics in a form that allows comparison with those of other organizations.

ISO

45001

The ISO 45001, safety and health systems standard, does not mandate fixed performance standards for organizations, but to maintain certification an organization has to demonstrate continuous improvement in its OSH arrangements, effectively committing it to raising standards every year.

Some of the numerous rating agencies and third-party assessors which assess ESG credentials on behalf of the major corporations conduct their own direct research. Agencies including Achilles Information, which prequalifies contractors for clients in the energy sector among others, will send questionnaires to organizations to assess the quality of safety and health, quality and environmental management, and may even carry out site audits. Other agencies scrape publicly available information such as annual reports and company websites.

The role of OSH technology

Any organization that wants to be rated highly on ESG criteria, or that simply wants to be a good employer, needs to maintain and demonstrate maturity in its safety and health management. That means keeping on top of the best available technology and techniques. New software-based systems, including integration of the processing and analytical power of artificial intelligence, are the next step forward for any organization committed to cutting incident rates and improving productivity.

Investment in higher-level protection systems demonstrates to investors and the wider world how far the organization is committed to safety and health beyond basic legal compliance.

In their pursuit of a proactive safety culture that goes above and beyond to reduce incidents, **Marks & Spencer (M&S)** has taken significant steps to prove their commitment to safety. Their efforts have not only enhanced the well-being of their workforce but have also showcased their dedication to innovation and continuous improvement in the realm of safety and health.

As **Alice Conners, HSE Specialist at M&S,** shared, "It has shown our colleagues that we are willing to try new things, and we want to get positive results from it. Implementing protex AI has been a real eye-opener, I think, for the whole Castle Donington site, for gaining visibility of what our risks are, and for turning those risks into proactive knowledge.“

This statement underlines how M&S has embraced cutting-edge technology, such as protex AI, to proactively identify and address potential risks, thereby significantly reducing the number of safety incidents.

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***Alice Conners**, HSE Specialist at M&S*

According to **James Carter, Network Health and Safety Manager at M&S,** the internal health and safety ethos at Castle Donington is 'Safety through trust, and Protex is allowing us to stand by that.' This further emphasizes how M&S has instilled a culture of trust and safety among its employees, and their investment in advanced AI safety systems like Protex AI has reinforced this commitment, demonstrating their proactive approach to health and safety.

The internal health and safety ethos at Castle Donington is 'Safety through trust, and Protex is allowing us to stand by that.

James Carter, *Network Health and Safety Manager at M&S*

Taking the slog out of analysis of behavioral data and filtering of the most critical information not only improves levels of employee protection, it also frees up precious time for safety and health specialists to dedicate time to other areas of their function, such as mental health and well-being that contribute to advanced human capital management and talent maximization - a priority for investment fund managers.

Case studies of deploying state-of-the-art systems, such as AI-based software to reduce incident rates and to provide better data on near-misses and hazard trends provide excellent material for sustainability reports. They highlight to the world how far an employer is willing to go beyond basic regulatory requirements in caring for its workforce.

These projects and technology adoptions can also be brought to the attention of external auditors for accreditation to standards such as ISO 45001 as evidence of high standards and continuous improvement. Finally, they can be flagged to third-party agencies engaged in supplier pre-qualification or ESG rating to demonstrate the level of commitment an organization has to protecting its human capital.

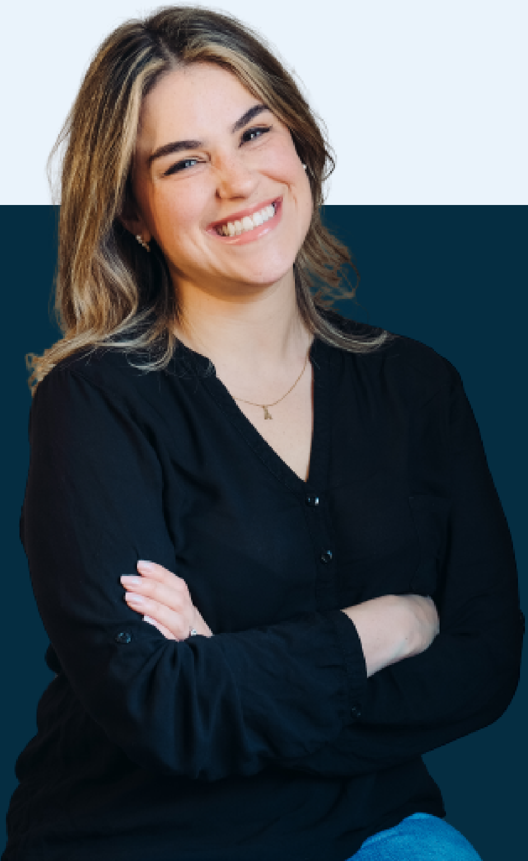
ESG is here to stay

Pressure from all stakeholders, from investors, regulators and corporate clients to employees and the public, for better ESG management and transparency has grown rapidly over recent years and that pressure shows every sign of increasing. Environmental stewardship and reporting was the pathfinder but the social element is catching up fast in terms of the scrutiny applied to company performance.

Maintaining the safety and health of employees and anyone affected by a business is the cornerstone of that social component. It is clear that for ESG investors and corporations prequalifying suppliers on ESG criteria, companies meeting legal minimum standards is no longer good enough. They are looking for high standards of safety and health that go above and beyond compliance because these standards signify well-run sustainable organizations that will prove profitable investment vehicles and dependable links in a supply chain.

In future years, the introduction of mandatory sustainability reporting frameworks, starting with the EU Corporate Sustainability Reporting Directive, will formalize the need to detail health and safety provision as part of ESG reporting, wherever it is material to a company's activities.

To achieve the stand-out performance in protection demanded in the ESG era, businesses need to be aware of developments in safety and health thinking and technological advances and seek partners who can help them raise their game to the level investors and customers increasingly demand.



Ready to explore the possibilities of integrating AI into your ESG strategy?

Contact our product experts

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