THE SAFETY PROF

in Environmental, Social &

By Linda F. Martin and Nicolai Massyn

SAFETY PROFESSIONALS owe the formal validation of their integral role in protecting the lives of workers to the introduction of OSH regulations around the world during the past 30 to 50 years (Hudson & Ramsey, 2019; Provan & Prior, 2019; Wright et al., 2019). The original OSH regulations definitively established a basis for the many existing regulations that ensure workers are protected from hazards that compromise their safety and health. The evolution of progressively stringent OSH regulations, standards and guidelines over the years has provided organizations with a clear mandate to provide for worker safety as part of their organizational structure, goals and culture to drive sustainable outcomes (Schneid & Schneid, 2019).

The emergence of environmental and security risks gave way to the rise of quality and sustainability concerns, which resulted in a combined prescribed objective: to preserve our world for future generations (Penzenstadler et al., 2014). Often, employers added the management of these concerns and others, such as emergency management, into the OSH function as a program area of perceived best fit since the safety and health function influences essentially every functional area within an organization (Schneid, 2014). As a result, sustainability, lean concepts, quality, security, emergency management and many other disciplines have been added to the OSH function in the past several decades (Manuele, 2013), allowing safety professionals to contribute key value to an organization's bottom line, not only in terms of cost reduction, but also in productivity, employee morale and shareholder value. As a result, in many cases where environmental, social and governance (ESG) professionals cannot yet be found or where the creation of ESG management as a separate discipline area has yet to be funded by an organization, the expertise of the safety professional has been called upon to provide assistance with the management of ESG concerns.

KEY TAKEAWAYS

- **The OSH function has been a program area of perceived best fit for a suite of expanding compliance and stakeholder initiatives such as sustainability, security, emergency management and many other disciplines for decades.**
- **Traditional and well-documented risk and hazard assessment methodologies are a solid foundation for safety professionals to utilize to assist organizations with identifying and establishing the materiality of environmental, social and governance (ESG) requirements.**
- **Safety professionals are expertly positioned to assist their clients and companies as ESG consultants. Safety professionals have good institutional knowledge of their clients' or their own organizations and can use familiar risk assessment and management protocols and methodologies to identify, create and maintain certain components of ESG programs.**
- **Organizations and safety professionals can work together to determine the level of structural and programmatic maturity needed to implement, manage and grow relevant ESG elements.**

What Is ESG?

ESG criteria are a set of guidelines for an organization's business operations that socially conscious investors follow to assess potential investments (Chen et al., 2021). ESG has become the most widely used measure to address issues and metrics related to socioecological performance, but not financial or profit concerns (Ferrell, 2021). The focus of ESG is on an organization's responsibility to society. One of the main objectives of an organization implementing an ESG program and tracking ESG metrics is to ensure that stakeholders receive the correct information about the organization to meet their various expectations and thereby reduce risk or enhance opportunities for the company.

Environmental metrics under ESG initiatives evaluate how an organization performs as a steward of the global environment. ESG social metrics refer to benchmarks that provide a view of how an organization cultivates relationships with employees, suppliers, customers and the communities in the localities where it operates. The governance aspect of ESG includes organizational metrics that work to quantify how an organization navigates leadership, pay scales, audits, internal controls and shareholder privileges (García-Muiña et al., 2021).

Many organizations struggle to realize, evaluate and develop suitable responses that proactively address traditional known risks, let alone new, emerging and imprecise risks in the often difficult-to-quantify ESG space (Frank et al., 2021). However, the related ESG management and reporting requirements are compatible with how safety professionals function across their value-added organizational support and services, which has created a new, compatible space for safety professionals to take the next step in influencing overall corporate, shareholder, and investment compliance and public perception risk areas.

ESG elements are a basket of expanded risk topics that define most nonfinancial risks that impact organizations. Companies must evaluate, control and report on these ESG risks, thus providing shareholders and investors with the best, most timely data and metrics to make informed management and investment decisions. The administra-

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tion and organization of this process is no small undertaking, but safety professionals are ideally positioned to help. Safety professionals are regularly asked by their organizations and clients to assist with ESG-related matters. The reasons for safety professional engagement in ESG matters can range from a request by a potential or current hiring client for ESG information to a lender or investor requiring certain minimum levels of ESG program implementation and performance by the organization as a precondition for access to capital.

Ideally, safety professionals should have the knowledge and confidence to advise the client or internal management team on next steps, such as advising the client to engage a subject matter expert or experts for matters beyond their traditional scope. Safety professionals should proactively seek new ESG organizational tools and professional development to add to their consulting arsenal to take on an ESG leader's role.

Why Is ESG Relevant?

To appreciate the extent to which many organizations will rely on safety professionals to assist with ESG matters, some context explaining the urgency of ESG adoption is required. The ESG acronym was first used in 2005 in a report by the International Finance Corp. arm of the World Bank to expand on the traditional sustainability concept (OCEG, 2021) that was introduced by the Brundtland Report (Brundtland, 1987). The aim was to make a broader and more inclusive tool to evaluate the nonfinancial performance of organizations that may have an impact on investment risk. ESG has recently become the standard sustainability risk lens through which capital providers view organizations in which they want to invest.

Due to the broad application and adoption of ESG in capital markets, the impact thereof has exponentially grown. A 2022 Ernst & Young survey found that 82% of U.S. CEOs see the adoption of an ESG program as a value driver to their businesses over the short, medium and long term (Guerzoni et al., 2022). The study also found that finding qualified, knowledgeable staff to assist in initiating and navigating impactful ESG management within their organizations is one of three top areas of concern for CEOs of U.S. organizations, together with digitization and supply chain management. The top three risk areas are interdependent, as digitization is foundational in ESG and supply chain management. ESG data plays an outsized role in the success of the ESG programs of most organizations due to its influence on issues important to investors within every level of the supply chain.

ESG Voluntary & Mandatory Constraints

The breadth and depth of applicable ESG risks look different for every organization, similar to the uniqueness of safety considerations in companies. Stakeholder expectations around ESG vary depending on the industry and geography in which the company operates, whether it is a listed or private company, and the organizational size and social environments the company finds itself in. Individual organizations report on a combination of voluntary and mandatory ESG aspects dependent upon their countries of incorporation and operation. In the EU member states and the Americas, there were upward of 270 voluntary and 350 mandatory reporting provisions for companies reporting under UN-backed Sustainable Stock Exchanges initiatives at the end of 2020 (van der Lugt et al., 2020). Mandatory ESG regulations can be researched within each stock exchange applicable to the organization's operations, while some of the foremost voluntary frameworks for ESG reporting include the Global Reporting Initiative, the Carbon Disclosure Project and the Sustainability Accounting Standards Board (ISSB, 2022).

Every organization finds itself at a unique juncture of the cross section of all its stakeholders' ESG expectations originating from each of their unique industry and geographical perspectives. Organizations must decide how material the ESG elements are to their success and sustainability, then implement a commensurate ESG program to control the risks and capitalize on the opportunities presented. This is an exercise in risk assessment and risk management, which are familiar functions of safety professionals. ESG expectations bring both risk and opportunity, and both must be considered.

ESG Stakeholders & Expectations

ESG stakeholders are those parties that have an interest in an organization's ESG performance. The Global Sustainability Standards Board (GSSB, 2021) provides the following definition for "stakeholder":

> individual or group that has an interest that is affected or could be affected by the organization's activities. . . . Examples: business partners, civil society organizations, consumers, customers, employees and other workers, governments, local communities, non-governmental organizations, shareholders and other investors, suppliers, trade unions, vulnerable groups. (p. 29)

Business partners and hiring clients may be interested in how the ESG programs of their supply chain partners support their own ESG programs. The Carbon Disclosure Project (2021) estimates that 92% of the carbon footprint of organizations lies within their supply chain, with the term "supply chain" referring to a network of organizations, people, activities, information and resources involved in delivering a product or service to a consumer (Hayes, 2022). Supply chain partner activities include everything from extraction of natural resources, processing of raw materials, and all aspects of manufacturing these resources and materials into a finished product up to and including delivery of the finished products to the organization's customers (Kozlenkova et al., 2015).

Underlying the value of taking ESG program concerns seriously is the implication that organizations that show greater ESG awareness are being judged by investors on these initiatives as they may present implications for long-term value and financial stability, as well as testimonies to an organization's commitments and actions to transition to renewable energy and green products, care for the earth's population, and ensure ethical governance and business practices (OCEG, 2021). Although one of the most pressing concerns is the current lack of comparability, consistency and alignment of materiality across organizational ESG approaches, ESG starting from the organization and extending deep into the organization's supply chain provides an informational value of ESG for investors to support long-term value.

ESG is an area where safety professionals can assist with the strategic direction and growth of financial and investment ambitions within an organization. Key attributes of a safety professional who is also an ESG leader include:

- formulating ESG vision, mission, and operating principles and strategy
- driving key sustainability initiatives, including net-zero strategy development, quantifying climate-related risk, leading greenhouse gas mitigation strategies, achievement of science-based targets and corporate reporting
- optimal positioning of the organization for stakeholders and potential investors

Good safety management statistics and results are also key components that hiring clients expect from their contractors to reduce their liability. Consumers, for example, may be interested in the human rights performance of fashion companies that may be at risk of child labor violations. Employees may be interested in equity and diversity practices in companies, and superior performance in this area could influence the success of attracting and maintaining talent.

Shareholders and other investors are interested in a wide array of ESG criteria needed to determine the sustainability risk that an organization may pose to their investments.

Understanding & Applying ESG Elements

ESG topics are wide ranging and derived from a combination of voluntary and mandatory requirements. Safety professionals require a broad understanding of ESG topics to engage with intent. Recurring themes and subtopics are prevalent across the many frameworks, requirements and regulations (Figure 1).

ESG elements are nothing more than an extended basket of risks and opportunities that apply to an organization based on its stakeholder expectations combined

FIGURE 1
COMMON ENVIRONMENTAL, SOCIAL & GOVERNANCE TOPICS

Environmental
- General environmental
- Water usage
- Energy usage
- Waste management and recycling
- Greenhouse gas emissions and carbon footprint

Social
- Diversity
- Pay equity
- Human rights
- Commitment to the community and volunteerism
- OSH
- Employee training and development

Governance
- Board capability
- Business ethics
- Data privacy
- Information security
- Business continuity
- Purchasing and finance
- Quality management

Note. From "ESG Risk Management and Compliance," by Veriforce, 2021, https://bit.ly/3xhW43B. Copyright 2021 by Veriforce. Reprinted with permission.

with the unique industry and geographic requirements it trades in. Addressing ESG elements contained in only one framework is usually not sufficient, as many frameworks likely apply to an organization with differing requirements and emphasis.

ESG Risks & Opportunity Assessment

When called upon by their organization, safety professionals may find assistance with their efforts by using a standard risk management step-by-step approach to evaluate the various ESG requirements. Following are the three recommended steps.

Step 1: Identify ESG Risks & Opportunities

Identify which ESG risks and opportunities are relevant to the success and growth of the organization. This is the process of determining the materiality of the ESG risks and opportunities (ESG: The Report, 2021). All ESG topics do not apply equally, or at all, to every organization at every point in time.

Step 2: Prioritize ESG Elements

Once the materiality has been determined, safety professionals have a list of the ESG elements that need to be prioritized. ESG risks must be minimized and ESG opportunities must be pursued in varying degrees related to the impact the ESG elements may have on the organization. All ESG elements are not equally important, and the level of maturity of each element should be addressed on a continuum from low to high, as with managing safety risks. A standard risk assessment methodology utilizing metrics such as likelihood and consequence is adequate to determine the level of significance for a particular ESG element.

Safety professionals may find that a few of the material ESG risks are already being dealt with within the broader organization under another project with a different name from the ESG topic. This process is referred to as inventorying, and a good inventory will ensure that no double or unnecessary work is done in an ESG area that may have already been addressed by the organization (S. Keyes, personal communication, March 12, 2022). As an example, organizations may already have existing competence and programs with shared areas of concern such as safety, cybersecurity and data privacy. These existing programs can slot into the overarching ESG initiative as is.

Step 3: Implement Relevant Controls & Capitalize on Opportunities

Safety professionals can assist the client or internal stakeholders with developing ESG administrative controls such as policies and procedures. An example could be working with human resources to develop an equality and diversity policy or collaborating with management to develop a child labor and modern slavery policy. The development of a written safety management system is one such activity that safety professionals, by definition, are best positioned to undertake, implement and maintain, along with various human factors surrounding traditional OSH programs.

Managing ESG risks is closely aligned with the core competencies and processes related to managing aspects of organizational safety risks; however, an expanded skill set within the ESG discipline would be prudent for those asked or aspiring to add ESG as a core competency or responsibility within an organization. Provan et al. (2017) assert that "safety professionals require expert level, domain safety knowledge, knowledge worker skills and a critical understanding of the technical and social nature of risk." Safety professionals can leverage these existing professional skills to help standardize company-wide governance, risk and compliance management such that ESG program elements are integrated into safety management systems, risk management, environmental management and emergency response including ISO 45001, 30001, 14001 and 21110 and can be managed using available commercial governance, risk and compliance platforms. Safety professionals are in an advantageous position to assist with the administration of the various tasks related to managing and maintaining the governance, risk and compliance systems including the ESG elements, along with managing their core OSH and other related organizational duties.

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Safety professionals are expertly positioned to assist their clients and companies as ESG consultants

ESG Reporting

Stakeholders such as investors of publicly traded companies or companies seeking acquisition opportunities of smaller organizations require nonfinancial information about ESG criteria to assist in their evaluations, usually in the form of ESG or sustainability reports. Should an organization fail to produce such a report, stakeholders usually rely on one of the more than 140 rating agencies (The Impact Investor, 2021) that collect publicly available information to create proprietary ESG reports and ratings. These reports and ratings are often based on information that could be outdated or inaccurate. Therefore, it is in the interest of organizations to ensure that they have the correct ESG data in the public domain so that they can ensure that stakeholders rate and evaluate them based on accurate information.

Conclusion

The adoption of ESG reporting standards is increasing across industries and geographies, and there is a convergence toward mandatory ESG reporting in most mature markets globally. Currently, large, listed and multinational companies must respond and implement ESG programs to meet these requirements. Further, an increased focus on supply chain contributors will impact small- and medium-sized organizations that participate in the overall objectives and activities of these larger organizations. As such, these small- and medium-sized companies, publicly traded or not, will be expected to start reporting ESG data to their employer clients for use in the employer clients' ESG programs and reporting.

Safety professionals are expertly positioned to assist their clients and companies as ESG consultants. Safety professionals have good institutional knowledge of their clients' or their own organizations and can use familiar risk assessment and management protocols and methodologies to identify, create and maintain certain components of ESG programs. Safety professionals must be flexible in their contributions of expertise to incorporate safety management system concepts within the totality of the ESG program. Should safety professionals take the step to expand their professional offerings, they must be willing to invest time into their own development and learning regarding ESG, as it is a rapidly developing and fascinating field. **PSJ**

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