SafeWork NSW

Strengthening the priority of WHS for business leaders

Industry Summary Report – Phase 1

June 2023

This summary report is based on an exploratory, mixed-methods study examining the commercial and business drivers of Work Health and Safety (WHS) commitment, with a focus on Australia's corporate sector. The study was conducted as part of the 'Strengthening the priority of WHS for business leaders' project conducted by the Centre for Work Health and Safety, in partnership with researchers from Edith Cowan University, Southern Cross University, and University of New South Wales. Special thanks to Professor Tim Bentley, Dr Leigh-Ann Onnis, Dr Pieter-Jan Bezemer, Dr Esme Franken, Dr Alexis Vassiley, Dr Nicola Green, Dr Rashid Zaman, Professor Ben Farr-Warton, Professor Yvonne Brunetto, and Associate Professor Sharron O'Neill for their collaboration on this project.

Safe Work Australia's model code of practice notes that leaders bear significant responsibility for shaping a workplace environment conducive to WHS. Beyond meeting legislative requirements, many business leaders seek to make a genuine commitment towards putting employees first. This is often referred to as 'prosocial behaviour,' and it has strong resonance with related concepts such as *corporate social responsibility* (CSR)[1] and the *environmental, social and governance* (ESG)[2] movement.

For this study, business drivers include the values, corporate governance characteristics and organisational designs that are adopted to pursue market and profit outcomes. Within this context, prosocial behaviour is a value which can be adopted by leaders, particularly board members and those in executive positions, which elevates the priority given to people's safety and wellbeing relative to the pursuit of profit.

[1] CSR describes activities carried out by an individual business to meet societal expectations, that go beyond their legal obligations

[2] ESG describes social matters that impact of the financial performance or solvency of an organisation

Phase One of this project, comprised three discrete study components:

- Study One explored existing literature regarding commercial and business drivers, and explored how business leaders elevate WHS performance through prosocial behaviours focused on the prioritisation of WHS.
- Study Two conducted an econometric analysis of different corporate governance characteristics, such as board size, executive compensation and CEO duality, and the measurable effects of these on WHS commitment, as well as safety and workforce outcomes, using panel data from a sample of ASX200 companies.
- Study Three examined prosocial signalling of WHS commitment within corporate annual reporting of ASX200 companies, along with drivers of such commitment.

In study one, we identified a number of commercial and business drivers of WHS commitment in the literature, including stakeholder influences. In exploring the role of leaders and other stakeholders in shaping behaviour and processes, we found that stakeholder relationships, and the influences of the board, motivate enhanced attention to WHS in organisations. However, much remains unknown regarding the role of market factors as a driver of prosocial behaviour in WHS.

In study two, an analysis of quantitative data from a sample of ASX200 companies identified particular corporate governance characteristics, indicative of prosocial behaviour, which were related to higher WHS commitment and safety outcomes in ASX200 firms. These included:

a) a company board that has a CSR sub-committee;

b) executive compensation that accounts for the WHS performance of the company; and

c) a higher proportion of independent directors on a company board (i.e. those who do not also hold management or substantial material relationship to the company, commonly referred to as 'board independence').

In study three, a documentary analysis of ASX200 companies' sustainability reports found that corporate companies pay little attention to detailing the mechanisms by which they prioritise WHS. However, they do signal that prosocial orientation is becoming increasingly important.

Overall, a heightened focus on organisational prosocial commitments in recent years has drawn increasing attention from companies and stakeholders. The findings suggest that stakeholder relationships mediated through reputation and business benefits are the external business drivers of WHS prioritisation. Despite the relatively large volume of literature that

examined organisational prosocial behaviour as it relates to CSR and ESG, little is known about the motivations of companies and business leaders to engage, or improve, prosocial behaviours to enhance WHS commitment, beyond the mandated regulatory requirements.

The evidence for commercial drivers of prosocial behaviour identified through our analysis of the international literature and ASX200 company reports was limited, and where identified it was usually linked to governance practices and board attention of WHS issues. This is consistent with the findings from the financial database analysis in study two, which found that several leadership and governance characteristics were observed as antecedents of WHS commitment. Of note, the presence of characteristics such as the presence of a CSR committee as well as executive compensation tied to ESG performance were found to be antecedents of WHS commitment in the analysis of ASX200 company financial and ESG databases.

Evidence of WHS commitment is predominantly found in documents reporting business performance, and is frequently associated with the influences of the board in relation to WHS. As a result, our findings suggested that board competencies, in terms of WHS knowledge and experience, have a critical influence on attention to WHS, and that when incentives are offered to improve WHS outcomes (e.g. financial incentives for KPIs) they need to be carefully designed to align with long-term company goals. Finally, limited evidence of drivers of prosocial motivations was found through this exploratory study.

Summarising the triangulated findings from this exploratory research, we found evidence that the influence of company boards is an important driver of WHS commitments. In essence, boards of directors play a chief role in aligning external commercial and ethical drivers with business strategy.