Corporate Governance Reform Green Paper

IOSH response to the Department for Business, Energy and Industrial Strategy consultation

Submission

17.02.17

Introduction

The Institution of Occupational Safety and Health (IOSH), the only Chartered body for health and safety professionals, with 46,000 members worldwide, welcomes the opportunity to comment on this important UK Government Green Paper on *Corporate Governance Reform*.[1]

In the response that follows we focus on occupational safety and health (OSH) and provide general comments; **nine summary IOSH recommendations**; and responses to the consultation themes and questions. We close with references and information about IOSH.

General comments

IOSH believes **strong leadership**, **good governance** and **meaningful corporate reporting** are fundamental for helping to ensure **safe, healthy and sustainable** working environments across all sectors.

IOSH provides a range of **free OSH resources**[2] and supports **OSH competence development** through our training and online tools. We also work to help **improve transparency as a driver to improved performance**. We were pleased to make the case for OSH as 'material' to business in 2003 and have worked as co-founders of Center for Safety and Health Sustainability (CSHS) to help standardise and provide guidance on OSH performance metrics.[3]

We support greater emphasis on **environmental, social and governance (ESG) issues** in narrative reporting, the transparency in supply chains requirements of the Modern Slavery Act, the development of the Corporate Human Rights Benchmark and the new Non-Financial Reporting requirements on public interest entities. We also welcome the Government's support for the Sustainable Development Goals and its guidance to business on the UN Guiding Principles on Business and Human Rights.[4]

Summary IOSH recommendations

In order to help ensure improved governance and OSH management, IOSH recommends:

1. Linking executive pay and bonuses to OSH performance and making bonus-targets more visible and designed to encourage positive leadership behaviours
2. Directors (and their equivalents), remuneration committees and institutional / retail investors receiving adequate OSH training
3. Strengthening the UK Corporate Governance Code on stakeholder engagement on OSH issues
4. Designating a non-executive director to ensure the employee-voice is heard on OSH, supported by an advisory panel and stronger reporting requirements on stakeholder engagement on OSH
5. Strengthening reporting and governance requirements for large privately-held companies
6. Developing a new bespoke 'Corporate Governance Code' for large privately-held companies, produced by authoritative, independent experts

In addition, IOSH also recommends:

7. Introducing explicit positive directors' duties on OSH, together with adequate OSH awareness training for all directors and equivalents
8. Lowering the turnover threshold for anti-slavery disclosures, so that more companies are required to provide them and extending the requirement to public sector organisations
9. Requiring those employing 250 or more employees to publicly report on OSH performance and the use of standardised OSH performance metrics

IOSH response to consultation themes

Executive pay

IOSH would like to see executive pay and bonuses linked to their OSH performance (based on good practice outlined in *Leading health and safety at work*, INDG417)[5] and that of their organisation.

We believe that this would further incentivise executives regarding their OSH leadership behaviours and encourage them to lead the development of positive corporate OSH cultures and improved performance.

As research has shown a link between positive feelings about work and higher productivity, profitability and customer and worker loyalty;[6] and also the benefits of some employee wellness, health and wellbeing programmes,[7, 8] encouraging improvement in this area through corporate rewards makes good business sense, as well as humanitarian and social.

To help inform decision-making, we think it important that directors, remuneration committees and institutional / retail investors receive adequate OSH awareness training. We would also support strengthening the UK Corporate Governance Code[9] regarding how organisations should engage stakeholders on issues such as OSH.

We believe requiring the disclosure of 'bonus targets', which should be well-designed to encourage positive leadership behaviours and include improved individual / corporate OSH performance, would increase transparency and incentivisation.

Strengthening employee, customer and wider stakeholder voice

IOSH supports the suggestion of a designated non-executive director to ensure key voices, such as those of employees on OSH issues, are heard in the Board Room. This is in line with INDG417 guidance[5] for directors and their equivalents, which advocates an OSH 'champion' on the Board.

Additionally, as part of worker engagement in OSH, we would support seeking employee views via an advisory panel and strengthening reporting requirements on stakeholder engagement. We would also recommend adequate OSH awareness training for all directors and equivalents.

Large privately-held companies

IOSH would support stronger reporting and governance requirements for large privately-held companies, which we believe would help ensure compliance. We agree that corporate reporting requirements should reflect organisation size and the number of employees whose OSH may be affected.

Recognising that good governance and reporting are good for transparency, trust and sustainable business, we understand that the Institute of Directors (IoD) are updating their guide for unlisted companies on this.[10]

Other issues

IOSH also suggests consideration of other measures related to OSH. We reiterate proposals made in our submission to the Löfstedt Review,[11] in which we advocated the introduction of explicit directors' duties for OSH, a proposal also made by Baroness Donaghy.[12] This is because IOSH believes that the essential leadership role of directors and their equivalents for setting direction, priorities and culture within organisations, means their current implicit health and safety responsibilities should be made explicit. This is supported by a 2005 study, which found that a majority of director and manager respondents agreed that defining duties in law would be useful and a significant minority thought an increase in disqualifications would increase board level health and safety direction.[13]

We also note that in an international study of nine different countries / jurisdictions, seven had legal requirements that imposed positive safety obligations on directors or senior managers of companies. Notably, none of the survey respondents suggested that the imposition of directors' duties had resulted in 'director flight' or excessive 'risk aversion' (though this was not explicitly asked).[14]

IOSH was pleased to assist with the production of '*Leading health and safety at work*' (INDG417)[5] guidance for directors, issued by HSE and IoD in 2007. However, while we understand awareness had risen, we were concerned at research findings in 2010 that implementation remained at baseline study levels, with implementation of specific leadership behaviours generally low.[15]

In terms of using increased transparency to help drive improved performance, IOSH has been working with colleagues across the globe to develop standardised metrics for OSH reporting, so that information provided for stakeholders is more meaningful and comparable.[3] In addition, IOSH has also called for a gradual lowering of the threshold for anti-slavery disclosures, so that more companies are required to report on this, together with extension of the requirement to public sector organisations.

IOSH responses to consultation questions

1. *Do shareholders need stronger powers to improve their ability to hold companies to account on executive pay and performance? If so, which of the options mentioned in the Green Paper would you support? Are there other options that should be considered?*

   Yes, if executive pay and bonuses are linked to OSH performance, as we suggest below, IOSH believes shareholders do need stronger powers to hold companies to account and we would support option v ('strengthen the code', p.24).

2. *Does more need to be done to encourage institutional and retail investors to make full use of their existing and any new voting powers on pay? Do you support any of the options mentioned? Are there other ideas that should be considered?*

   Yes, IOSH believes that institutional and retail investors and committee members should have adequate OSH awareness to help inform their decision-making and votes and we would support option ii (shareholder committee) and option iii (encourage voting) (p.26)

3. *Do steps need to be taken to improve the effectiveness of remuneration committees, and their advisers, in particular to encourage them to engage more effectively with shareholder and employee views before developing pay policies? Do you support any of the options set out in the Green Paper? Are there any other options you want to suggest?*

   Yes, IOSH believes steps should be taken to improve the effectiveness of remuneration committees, and their advisers, so that they engage with stakeholder views on OSH before developing pay policies and we favour option i (remuneration committee to consult widely on pay policy, p.28). We advocate that they should have adequate OSH awareness to help inform discussion and decisions.

4. *Should a new pay ratio reporting requirement be introduced? If so, what form of reporting would be most useful? How can misleading interpretations and inappropriate comparisons (for example, between companies in different sectors) be avoided? Would other measures be more effective? Please give reasons for your answer.*

   IOSH has no comment on pay ratios.

5. *Should the existing, qualified requirements to disclose the performance targets that trigger annual bonus payments be strengthened? How could this be done without compromising commercial confidentiality? Do you support any of the options outlined in the Green Paper? Do you have any other suggestions?*

Yes, to aid transparency and incentivise OSH improvements, IOSH believes the existing, qualified requirements to disclose the performance targets that trigger annual bonus payments should be strengthened and that OSH performance should be a key metric for this.

6. *How could long-term incentive plans be better aligned with the long-term interests of quoted companies and shareholders? Should holding periods be increased from a minimum of three to a minimum of five years for share options awarded to executives? Please give reasons for your answers.*

Yes, to encourage longer-term investment decisions and programmes related to improved OSH, IOSH believes the holding period for executives share options should be increased from a minimum of three years to a minimum of five years.

7. *How can the way in which the interests of employees, customers and wider stakeholders are taken into account at board level in large UK companies be strengthened? Are there any existing examples of good practice that you would like to draw to our attention? Which, if any, of the options (or combination of options) described in the Green Paper would you support? Please explain your reasons.*

IOSH believes the *way* in which the interests of employees, customers and wider stakeholders on OSH issues are taken into account at board level in large UK companies could be strengthened through a combination of options that would each provide opportunities for this: i (create stakeholder advisory panels), ii (designate existing non-executive director to speak on employee issues) and iv (strengthen reporting requirements on this) (pp.38-40). All those involved should have adequate OSH awareness.

8. *Which type of company do you think should be the focus for any steps to strengthen the stakeholder voice? Should there be an employee number or other size threshold?*

IOSH believes that any organisation with a Board (regardless of other thresholds) should be in focus for a strengthened stakeholder voice on OSH-related issues.

9. *How should reform be taken forward? Should a legislative, code-based or voluntary approach be used to drive change? Please explain your reasons, including any evidence on likely costs and benefits.*

IOSH believes there should be clearer guidance in the relevant codes and that they should be supported by strengthening the legal requirements, as suggested in paragraph 2.33 (p.41), to help ensure compliance. This is because 'voluntary codes' do not necessarily have sufficient effect, as highlighted in the research into evaluating the use of guidance INDG417 (see RR815).[15]

10. *What is your view of the case for strengthening the corporate governance framework for the UK's largest, privately-held businesses? What do you see as the benefits for doing so? What are the risks to be considered? Are there any existing examples of good practice in privately-held businesses that you would like to draw to our attention?*

IOSH believes there is a case for strengthening the corporate governance framework for the UK's largest privately-held businesses. As highlighted in the Green Paper,[1] the 'big four' accountancy firms (EY, Deloitte, PWC and KPMG) all voluntarily adopt good governance practice, indicating that they (like many others) believe it makes good business sense and others should be encouraged to follow suit. Recent high-profile failures, such as Sports Direct, have quite rightly led to strong criticism and public concern about the need to ensure that all employers take sufficient action to protect the safety and health of their workers.

11. *If you think that the corporate governance framework should be strengthened for the largest privately-held businesses, which businesses should be in scope? Where should any size threshold be set?*

IOSH believes that all organisations with 250 or more employees should be in scope for a strengthened corporate governance framework, given their potential to impact large numbers of people's safety, health and wellbeing, with a view to this being reviewed and lowered in future.

12. *If you think that strengthening is needed how should this be achieved? Should legislation be used or would a voluntary approach be preferable? How could compliance be monitored?*

IOSH believes a new bespoke Corporate Governance Code for large privately-held businesses should be produced by authoritative and independent experts, outlining best practice and that legislation should be strengthened to help ensure greater compliance.

13. *Should non-financial reporting requirements in the future be applied on the basis of a size threshold rather than based on the legal form of a business?*

Yes, IOSH believes that reporting requirements should reflect size, given the potential for such organisations to impact the health and safety of large numbers of employees. We would suggest that initially, a threshold of 250 or more employees is used, with a view to this being reviewed and lowered in the future.

14. *Is the current corporate governance framework in the UK providing the right combination of high standards and low burdens? Apart from the issues addressed specifically in this Green Paper can you suggest any other improvements to the framework?*

In addition to the issues specifically addressed in the Green Paper, IOSH believes there should also be:

- A requirement for organisations with 250 or more employees to publicly report OSH performance and that this performance should be linked to executives' and directors' pay and bonuses
- Explicit directors' duties on OSH, together with adequate OSH awareness training for directors and their equivalents
- The use of standardised OSH metrics in corporate reporting
- A more inclusive anti-slavery disclosure requirement, with a lower turnover threshold and public sector organisations also in scope.

References

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About IOSH

Founded in 1945, the Institution of Occupational Safety and Health (IOSH) is the largest body for health and safety professionals in the world, with around 46,000 members in over 120 countries, including over 13,000 Chartered Safety and Health Practitioners. Incorporated by Royal Charter, IOSH is a registered charity, and an ILO-recognised international NGO. The IOSH vision is:

"A world of work which is safe, healthy and sustainable"

The Institution steers the profession, providing impartial, authoritative, free guidance. Regularly consulted by Government and other bodies, IOSH is the founding member to UK, European and International professional body networks. IOSH has an active research and development fund and programme, helping develop the evidence-base for health and safety policy and practice. Summary and full reports are freely accessible from our website. IOSH publishes an international peer-reviewed journal of academic papers twice a year titled *Policy and practice in health and safety*. We have also developed a unique UK resource providing free access to a health and safety research database, as well as other free on-line tools and guides, including resources for business start-ups; an occupational health toolkit; and a risk management tool for small firms.

IOSH has 40 Branches worldwide, including the Caribbean, Hong Kong, Isle of Man, Oman, Qatar, the Republic of Ireland, Singapore and UAE, and 16 special interest groups covering aviation and aerospace; communications and media; construction; consultancy; education; environment; fire risk management; food and drink; hazardous industries; health and social care; offshore; public services; railways; retail and distribution; rural industries; and sports grounds and events. IOSH members work at both strategic and operational levels across all employment sectors. IOSH accredited trainers deliver health and safety awareness training to all levels of the workforce from shop floor to managers and directors, through a professional training network of more than 2,000 organisations. We issue around 180,000 certificates per year.

For more about IOSH, our members and our work please visit our website at www.iosh.co.uk.

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