

12 Questions Every Director Should Ask About Workplace Safety

By Tom Krause, John Balkcom and John Henshaw

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The globalization of terror, the fear of potential pandemics, and the public’s concerns over corporate misconduct have brought new gravitas to the question of safety and health in every workplace. To some, worker safety may seem a mundane issue in an increasingly knowledge-intensive economy. But in our experience, the health and safety of the worker underpins the ability of any company to claim excellence in its dealings with customers, employees, investors, and the public.

This article suggests the twelve primary questions every director should ask—and expect to have answered thoroughly and well—about safety in any company. The first five frame the relationship of safety-to-value creation. The remaining seven address the

capabilities and processes whereby a firm either instills safety in the day-to-day mindset of every executive and employee—or creates an unacceptable risk of catastrophic failure and organizational incompetence.

What is the relationship between worker safety and other performance metrics in this company?

While this question may be interesting from a purely theoretical point of view, we pose it solely as an empirical question. That is, we seek to determine what longstanding statistical relationship exists between variations in safety and health outcomes (e.g., the rate of OSHA-recordable incidents) from month to month and quarter to quarter, and contemporaneous changes in financial results. The latter include earnings, cashflow (and its working proxies, such as EBITDA), and unit costs of production.

Our experience suggests these merely statistical relationships are idiosyncratic to the operations of each company, that no two companies have identical patterns. Moreover, these unique relationships when traced to root causes within a given company can be highly revealing of the organizational

impediments to both safety and profitable growth.

What should our safety goal be?

Experienced observers believe that companies that are highly successful in safety performance are also successful in operational performance. Leading companies that are viewed as “socially responsible” set tough targets to challenge the organization continuously and improve safety performance the same way they set other operational targets.

For example, DuPont is well known for striving to achieve zero workplace injuries and illnesses based upon the fundamental belief that “all injuries are preventable.” Alcoa, under the leadership of Paul O’Neill, set stringent goals for safety and reduced its lost-time incident rate from 1.86 in 1987 to 0.12 in 2002.

Even the largest and most tradition-bound organizations are capable of order-of-magnitude changes in safety performance. In addition to ensuring that a safety goal is set, a director should feel free to ask what benchmarking was done in establishing a safety goal, what such a change would mean in his or her company, what is blocking its accomplishment, and when a

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new level of accomplishment can be achieved and sustained.

How do we know we're being preventative in our safety efforts and how do we measure exposure to hazards in the absence of injuries or illnesses?

Virtually every event that results in a workplace injury or illness is preceded by lower level decisions and outcomes that increase the likelihood of failure in safety. The catastrophic failure—the death of a worker or a serious injury—can be seen as the

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tip of an iceberg undergirded by an architecture of behaviors, practices and outcomes that made the greater loss predictable. Leading indicators of lower-level safety decisions reveal the organizational culture that gives rise to the costly failure. Directors should ask what leading indicators are predictive for their organization, including measures related to organizational culture and safety climate. Then they should ask what is being done to move those leading indicators, how they are changing over time, and what the readings were before the most recent major safety failure.

Directors should ensure that the organization fully understands what goes on in the places where workers interact with the core technology of the company, what we call the Working Interface. Ultimately, safety excellence depends on keeping the Working Interface free of hazards, which include the facility, the equipment and the behavior of the worker.

What is our exposure to a catastrophe such as Bhopal?

The failure to anticipate an incident of catastrophic proportions—that is, a multiple-fatality event or something the magnitude of Bhopal—is above all a failure of imagination. Either that or it's a suppression of the evidence of leading indicators that prefigured the likelihood of a major failure. With reflection, any CEO, COO, and chief safety officer should be able to tell a director where such risks lie, what their probability of occurrence is, and what preventative steps are being taken to head them off.

How do we know there's not fraud in our health and safety reporting and that exposures and accidents are not being under-reported?

Any discussions about safety depend on the integrity of safety reporting, which holds the same challenges in the verification of processes and outcomes as financial reporting. Indeed, safety performance is an important measure of enterprise risk management, and shareholders are more watchful now for fraudulent reporting. Just as directors now see their responsibility and liability for sound financial reporting, they also sit where the buck stops in the matter of risk management, and workplace safety and health reporting. Both the full board and the committee responsible for environment, health and safety are responsible for

ensuring that the performance data and the safety reporting are accurate.

A director with sound answers to these first five questions should be able to get an exact answer to the next question, which addresses how safety and value relate to one another in the company. The remaining questions deal with the reliability, transparency, and fairness of safety-related decision-making in the organization. No organization can reasonably expect employees to take on the task of safety—except when the CEO happens to be in town or the board happens to make its annual plant visit—if it lacks integrity.

Without the historical analyses, a clear goal, an awareness of early indicators, a “Bhopal” assessment, and validation of safety reporting, an organization may be unable to link safety and value. However, we are convinced that the two are closely linked and that any director deserves and has a duty to know the connection in a rigorous and validated way so as to optimize value creation for shareholders.

How much value are we delivering through our safety performance?

Economic value analysis has revealed the many value drivers that support the delivery of exceptional returns to shareholders. Within these “value trees” a director can see what dimensions are inherent in the safety-related behaviors, practices, and outcomes of the organization. By looking at the historical relationships between safety and financial outcomes, as well as the underlying causes of shortfalls in both, a company and its directors can assess the contribution a safe workplace makes to the organization's value—or the degree to which safety breakdowns are inhibiting the creation of value.

What tone should we set in the boardroom about safety?

While “tone at the top” has become a byword of the enactment of the Sarbanes Oxley Act, it is an essential element in the creation of an organizational culture of safety and incident-free operations. When we speak of “incidents,” we are referring to increases in exposure or risk, some of which result in recordable injury or illnesses or possibly major industrial accidents.

Attention to safety in all its dimensions, including exposures or risk and not just recordable injuries, starts at the top. The top must include the representatives of the shareholders, in essence the owners, and not just senior management. Setting a tone in the boardroom favoring safety performance means more than just reviewing the injury and illness statistics at each meeting or appearing once a year at an operating site. It means paying attention to safety, requiring accountability, and expecting improved performance, without always looking to place blame. It’s this kind of attitude that will make possible the improvement of “leading” safety indicators and the delivery of incremental safety and organizational value.

The safety tone is set at the top, primarily by the care and astuteness of board-level listening both to the safety outcomes of the organization and to the upward communication from operating management about the safety climate. While organizational culture may take years to change, our experience suggests that effective listening and caring about workplace safety and health almost immediately alters the safety climate and sets the tone for hazard avoidance.

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What does management need from the board to achieve safety objectives?

While “attention” may seem an obvious answer to this question, many other answers are both possible and more effective in improving workplace safety and health performance. These include:

- Clear processes for periodic review of safety and health outcomes at the board level
- Direct access for the senior safety officer to the members of the board, akin to the relationship of the outside auditor to the board’s audit committee
- Inclusion of both leading and lagging safety and health indicators in the board’s periodic review of key performance indicators of the organization
- Inclusion of safety and health results, both leading and lagging, in the performance management system for the most senior officers of the company
- Affirmation of leading and lagging workplace safety and health goals and targets at the board level, akin to the board’s consideration and ratification of strategic initiatives.

What is essential here is a dialogue between senior leadership and the board so that a fully actionable view of the question can be formulated.

Who is driving safety in the company?

This question begs for both a “team” answer and a “chain of command” answer. But the answer is that neither is exclusively the

driver. Safety requires an exchange of information among peers to reveal the full iceberg of hazards. Nonetheless, the board is the principal agent for the company’s owners, and the management serves as agents of the board. So, no team organization can overcome the principal-agent chain of command whereby the fiduciary responsibility of the board is exercised effectively (or not) by the directors on behalf of the owners.

However, the location of decision-making power between the boardroom level and the shop floor differs radically from organization to organization. That means the real answer to “Who is driving safety?” may differ from one company to another. But the chain of command governing safety is only as strong as its weakest link. Each level of the organization—from the boardroom to the shop floor—must have a tangible role in the organizational mechanisms that assure the minimization of exposures to hazard. What matters most is that the decision-making process governing safety policies, practices, standards, monitoring, and accountability results in tangible steps that can be observed, verified, and modified as the organization learns how to optimize its own safety performance.

How are we protecting our people from safety and health risks originating outside the workplace?

Off-the-job injuries and absenteeism cost companies billions of dollars each year. Beyond routine off-the-job injuries and illness, roughly every

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decade a new “X factor,” such as a potential flu pandemic, seems to come into play, threatening the optimization of a company’s human resources. Even the threat of terrorist attacks takes its toll on a company’s effectiveness as workers avoid the workplace or are less attentive to work.

In many companies injuries and illnesses that originate during off-duty hours exceed the total cost of on-the-job injuries or illnesses. Directors should be asking how the company is addressing these safety and health exposures. Is it advocating safe driving and seatbelt usage, as well as safe practices around home improvement jobs or other activities that may cause its workers to miss work or be less attentive while there, and increase health care costs? In our experience, the frequency and severity of off-the-job injuries or illnesses goes down as the organization’s safety climate and organizational culture improves.

Today, the Avian Flu, HIV/AIDS, and threats of terrorist attacks may be seemingly uncontrollable risks for global firms. Terrorism is now a global threat designed in part to disrupt normal business and economic activity. In the past, outbreaks of Legionnaire’s Disease in the US, and globally, smallpox and malaria, have posed difficult problems and placed stress on the organization. Directors should be asking what anticipatory planning is

being done and how the leadership of the organization might respond to such threats.

Are our employees aligned with the board, CEO and other leaders in our ongoing commitment to safety and how are we assuring maximum employee engagement?

Organizations that achieve safety and health excellence find ways to engage employees throughout the organization. True employee engagement creates personal commitment and accountability, and accountability is critical in improving safety and creating a performance-oriented culture. This is equally true whether a workplace is organized or not.

Engaging employees means more than putting up posters or having safety contests. Most employees have a natural interest in their own safety and the safety of others, and are open to becoming engaged. But actually engaging them requires an organizational culture that values safety highly, as well as leaders who express the value consistently in the things they say, the beliefs they hold, and the decisions they make every day. Directors should ask to what extent employees are engaged in safety improvement, how that engagement can be measured, and what steps are underway to improve it.

What kinds of cognitive bias may be affecting the quality of deliberations on environment, health and safety among our senior leaders, including our own board members?

A rich literature suggests that even the most thoughtful leader is subject

to a variety of “cognitive biases,” habitual and largely unconscious ways of estimating the likelihood of uncertain future events. Such biases often cause wrong decisions. The most visible recent example of this process is the failure of the space shuttle Columbia. The accident investigation panel found that NASA knew the properties of foam and the hazard that it represented. However, the organization gradually became accustomed to the acceptability of the risk of foam loss and began to rely on its experience of successful missions rather than its knowledge of the actual risk. A culture developed that allowed this risk to exist in spite of the fact that it was known. This is one example of a bias in judgment that had catastrophic consequences for the nation. The director must ask: “Where are we subject to bias in the way we evaluate risk and predict the probability of uncertain future events?”

Just asking these 12 questions at regular board meetings and at meetings of the board’s environment, safety and health committee will engender a safety climate that may over time lead an organization to a zero-tolerance culture for worker injuries and illnesses. At a minimum, they help the board in assuring its own diligence in the oversight of safety risks and threats, all of which erode the ability of a company to deliver great results.

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