Arthur D Little

Viewpoint

Safety governance: Getting it right

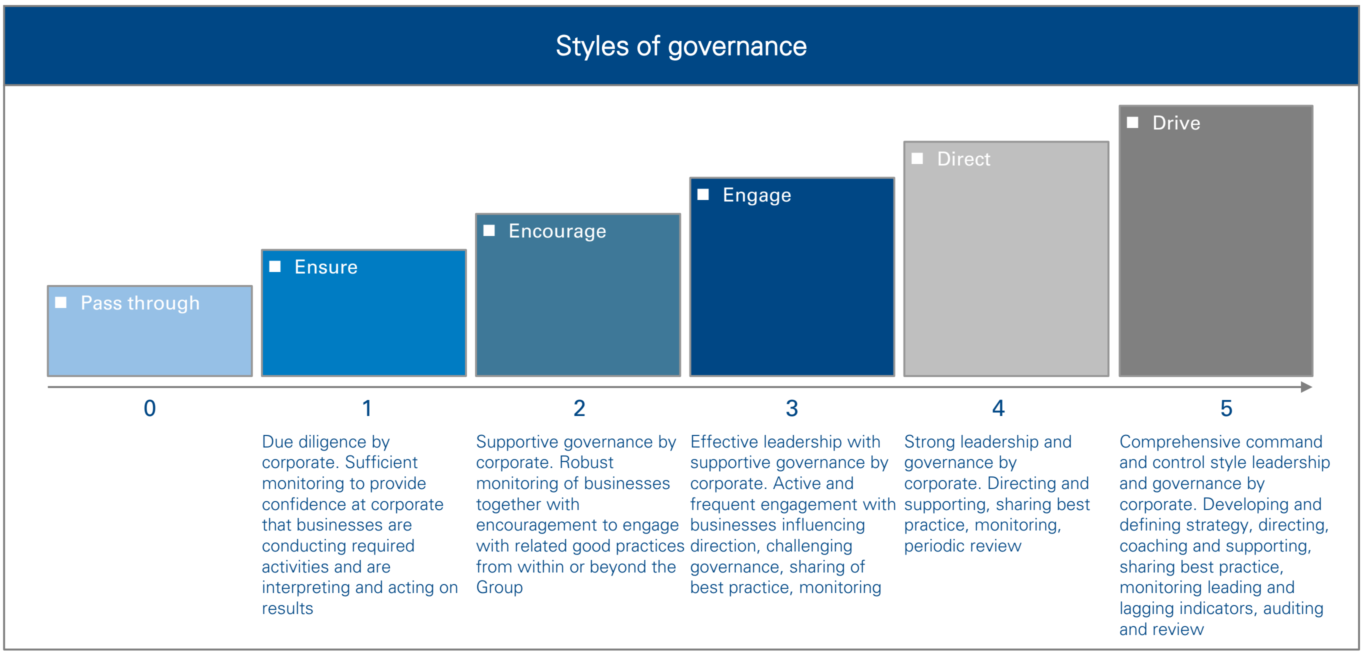
Exercising effective safety governance across large, diverse corporations

As companies become increasingly consolidated under the ownership of very large corporations, these corporations face a growing challenge in exercising appropriate safety governance over their constituent businesses. This challenge is compounded by the wide range of available governance arrangements from which to choose, an increasing diversity of operations, and the significant risk of reputational damage arising from poor safety performance by a business unit in which the parent corporation does not necessarily hold a controlling stake. Choosing an approach for corporate safety governance is a critical decision for the board and the executive leadership team. This paper explores how to meet these challenges and to get safety governance right.

The governance staircase

Through our work in a range of sectors, we have observed a variety of approaches to corporate safety leadership and governance. A simple means of classification is a 'staircase' describing the relative levels of corporate involvement in the business units (see figure below). On the first step, corporate does little more than 'ensuring' performance by seeking assurance from business units. At the highest step corporate provides active, comprehensive commands and controls to 'drive' safety from the center. Each step has its advantages and disadvantages, and the position adopted is usually a conscious decision aligned to the particular needs of the business. However, it is our experience that good safety performance can result from any position on the staircase, and so other factors need to be considered to select the most effective safety governance style.

Corporate governance staircase model



An improved safety governance model

Any model for something as complex and multi-faceted as corporate safety governance risks being either a simplification or too complicated to be useful. Through our work we have developed a two dimensional model for corporate safety governance, looking separately at (a) the level of requirements set by a corporation and (b) the extent to which it actively intervenes in its business units.

Corporate requirements

These are the safety requirements set at the highest level of the corporation for some or all of its business units to follow. They may take a variety of forms, such as:

- Specifications for structure of a safety management system.
- General policy statements and good practice guides.
- Reporting of performance, and the need to meet specific targets.
- Detailed standards set by the corporation.
- Requirements to comply with external standards.
- Goals developed in line with a safety maturity model.

Corporate intervention

This represents the extent to which corporate are involved in actively managing the business units. This can include:

- Investigation of business units by a corporate team.
- Monitoring processes such as audit, incident reporting and periodic review.
- Review and approval of plans.
- Provision of training or other support for management.
- Appointment of management in the business units.

The figure below shows how a corporation might adopt a "soft" or "hard" approach on either or both factors. This allows for a more varied characterization of governance arrangements, with each area of the plot shown corresponding to a different, broadly defined style.

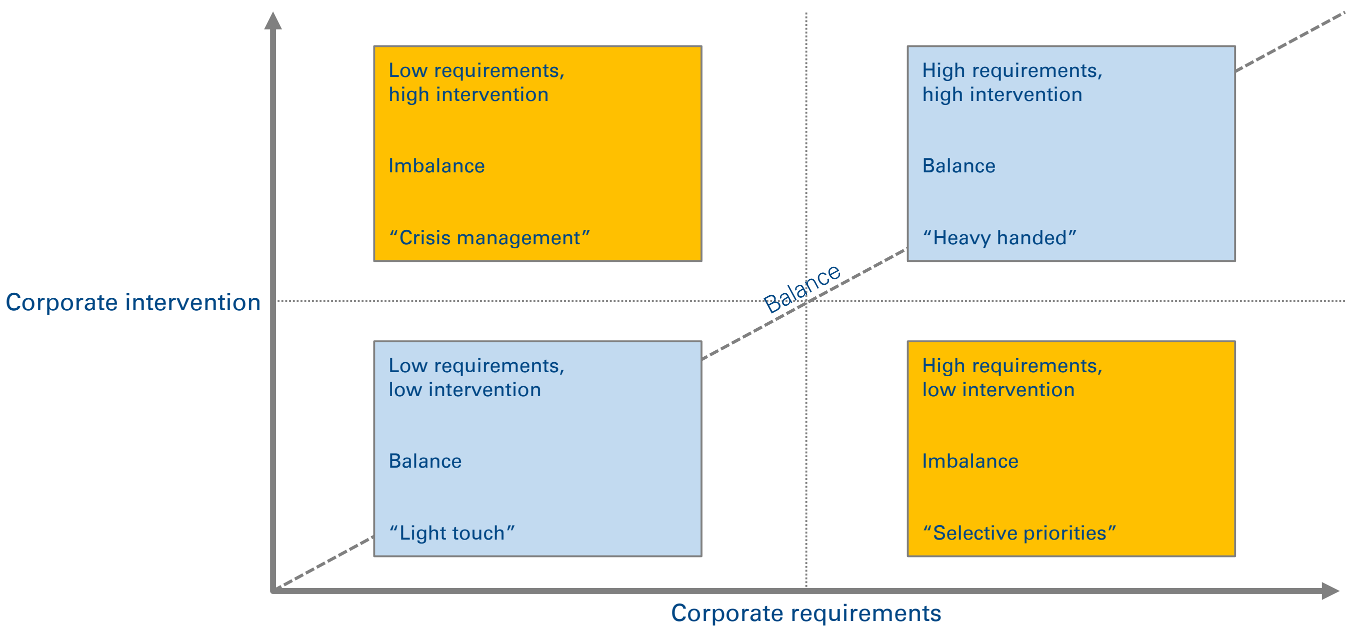
"Light touch"

Corporations here provide relatively little specification to their business units and mostly allow them to manage their own safety. Monitoring focuses on the most important proactive and reactive performance indicators and auditing from the center is minimal and selective, or may not be conducted at all. We have observed this style of governance in some parts of the transport sector where detailed legislative requirements already exist (such as railways), where there would be little value in duplicating requirements, and in corporations with a high degree of diversity where it is impractical to set detailed standards that are applicable across all of its businesses. Effective governance in this area means making it very clear that business unit leaders are fully responsible for safety performance, and holding them to account on this performance.

"Heavy handed"

Here, the corporate center sets detailed prescriptive requirements and intervenes proportionately to ensure compliance – whether by frequent, detailed auditing or hands-on management of particular activities. We have observed this in sectors where there is less prescriptive legislative regulation, such as bus transportation or manufacturing, and also in some high hazard industries where there is a greater expectation

Two-factor corporate governance model



of tight control. This can be effective where a high degree of control is required, but can risk undermining any sense of accountability for safety performance in the business units.

Imbalance: "Crisis management"

Businesses operating with low requirements but high levels of intervention can be unbalanced and will typically have less effective governance, although this can be justified for limited periods. Typically, the corporate center has not developed extensive, detailed requirements (either because it is new, has chosen not to do so, or has neglected to do so) but intervenes heavily in its business units regardless. This can result in confusion and dissent in the businesses – for example, an auditor and auditee can both be unclear on the standard to be applied in the absence of prior specification, and the results of the audit less effective in driving change. Such an arrangement can engender resentment of the corporate center and resistance to its intervention, as we have observed first hand. Operating in this way may be justified, however, when managing a crisis situation, where there is a need for corporate to 'step-in' and take control over business units that are falling short of required performance.

Imbalance: "Selective priorities"

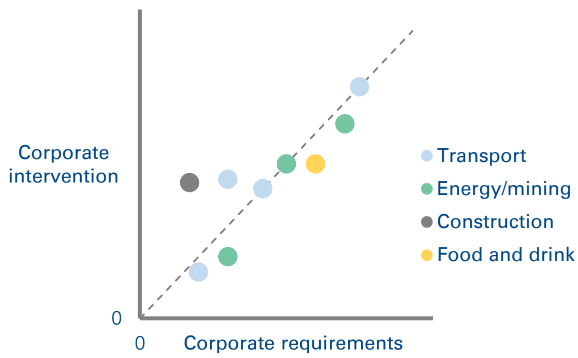
The corporation sets detailed requirements but does not intervene to enforce compliance. The risk is that requirements become "suggestions" or "recommendations" in practice and widespread non-compliance may arise over time. If intervention is firm on high priority issues it may be acceptable to leave the other requirements as optional, but this can create legal liability if the corporation is held accountable for failure to enforce its requirements in the event of a safety breach. An example of this is the Texas City disaster in 2005, after which lack of enforcement of safety requirements by BP in its US refineries was cited as an underlying cause by the Baker Report. Under different circumstances, however, incompletely or selectively enforced requirements can be useful for a corporation if it is desirable to enable the future strict imposition of certain requirements that are not a high priority at present.

This two dimensional model provides the basis for a more useful insight into corporate safety governance. The "staircase" model describes a range of governance styles but cannot discriminate between them for effectiveness, as our experience shows that any style can be implemented more or less effectively. The two dimensional model gives us an insight into what effective implementation actually looks like – our experience suggests a preference for balance between requirements and intervention, whether low, high or somewhere in between. Smart corporations are conscious of where they sit in such a model, and may adapt their position over time as part of strategic repositioning – for example, introducing more requirements prior to increasing intervention.

Benchmark study

We conducted a benchmarking study of safety governance practices in nine multinational corporations across a range of sectors, including transport, construction, food and drink, and energy. We examined a number of aspects of safety governance and characterized each corporation in terms of the two dimensional model described.

Results of corporate safety governance benchmarking study



The above figure shows the results of our analysis. With a couple of exceptions, most corporations had struck a balance between requirements and intervention at the corporate level, but the spread of styles of governance was considerable, even within sectors, in both dimensions. This corroborates our general experience that a wide range of styles can be successfully employed but that balance is generally effective in delivering corporate safety governance. Notably, it was apparent that a large corporate safety function is not necessarily required for good or improving safety performance. Indeed, some of the most effective governance arrangements were highly focused with very small corporate teams with safety responsibilities.

"…I don't need anyone else in the center doing safety. I want my business unit leaders to be under no illusion that they are individually responsible for all aspects of safety." Group CEO

The role of leadership

In the oversight of safety at a corporate level, there is a critical role to be played by leaders that is distinct from the role of governance structures. If governance may be thought of as the formal requirements and systems of intervention set out by a corporation, leadership is a quality demonstrated by the individuals responsible for implementing those systems. Leadership can be thought of as a third dimension to corporate safety, alongside the two we have described for corporate safety governance. As with governance, there are different leadership styles, none of which are necessarily "right" or "wrong" in all circumstances, but it is clear that to drive safety performance leaders must demonstrate a strong commitment to safety. A corporation with highly sophisticated formal structures for safety that lacks this commitment will not generally see those systems put to their best use (e.g. BP at Texas City). Conversely, although committed leadership can make gains in safety performance with only the most rudimentary formalized systems in place if there is the will to do so, they will only be able to progress so far without implementing more effective governance mechanisms. In our experience, where such systems are underdeveloped, improvements tend to follow leadership commitment.

"Effective health and safety performance comes from the top…boards need someone with passion and energy to ensure it stays at the core of the organization." UK Health and Safety Executive

Commitment to safety is desirable at all levels of management, with accountability at the top and responsibilities for delivery actively pushed down the hierarchy in all of the highest safety performers we have benchmarked. The best performers do not simply rely on established systems, but maintain an active state of concern about safety, seeking out potential sources of risk and managing them with the aid of efficient systems.

Conclusion

Corporations facing the challenges of corporate safety governance do well to note that there is no single "right" answer – rather, a range of styles is open to them, some of which may suit their circumstances better than others. However, a conscious balancing of level of requirements imposed on business units with an appropriate level of corporate intervention appears to be a consistent feature of successful approaches, whether keeping both low and with a minimal corporate safety function, or high and with extensive supporting infrastructure. The element of individual leadership is vital in making corporate governance measures effective, with real commitment to safety being the main driver of good or improving performance.

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Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organization.

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