

# **HEALTH & SAFETY INDICATORS FOR INSTITUTIONAL INVESTORS.**

**A report to the Health and Safety Executive**

**By**

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## Executive Summary

Institutional investors have a significant level of interest in Health and Safety, and it fits well with corporate social responsibility / socially responsible investment. Investors are generally supportive of the idea that the good health and safety performance is an indicator of good management, and are generally interested in finding out more about Health and Safety.

However, it should also be recognised that there are many competing demands on investors' time – Health and Safety is only one aspect of corporate social responsibility which is only one aspect of investment generally. For a large group of investors, concern over Health and Safety will largely be a matter of ensuring that the boards of investee companies have adequately considered Health and Safety and have managed it appropriately (very much in the spirit of the Turnbull guidelines).

For a smaller, but still significant group of investors, are prepared to go further, and examine a company's health and safety management and performance in some detail, and take the lead in raising H&S issues with companies. In addition, there are a number of research / corporate governance organisations, which study the environmental and social performance of companies in more detail for fund managers. These organisations are very useful intermediaries and the HSE should consider developing closer links with them.

Investors have clear ideas about what sort of indicators would be useful – relatively few in number (5 or 6), relevant to the industry in question, and perhaps most importantly comparable between companies – i.e. calculated on the same basis. In addition, indicators should be ideally globally applicable.

Six indicators have been identified as potential core indicators. These are: Whether a director been named as a H&S champion; the level of reporting of H&S management systems; the number of fatalities; the lost time injury rate; the absenteeism rate; and the cost of H&S losses. However, investors would also welcome recommendations from the H&S profession.

There are also a number of supporting actions the HSE could undertake to develop its relationships with investors and business, including research and information dissemination. Two key areas are the development, in conjunction with the accountancy profession, of a "cost of poor H&S indicator", and the development, with third parties, of a "Health & Safety engagement index" which provides a simple indicator of high level management engagement in addressing Health & Safety. It would be useful to investors, but would also provide companies with a benchmarking tool and encouraging a constructive sense of competition.

Overall, working with investors should be seen as an effective complement to other action to promote and encourage Health and Safety. However, the HSE should aim to make it as easy as possible for investors to address H&S issues (e.g. by naming companies where H&S is a concern). Secondly, working with investors should not be seen as a substitute for other action, such as enforcement.

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### Introduction

The Government's new 'Revitalising Health and Safety' strategy requires the Health and Safety Commission/Executive to find new levers of influence to motivate business at Boardroom level to improve health and safety (H&S). To this end, the new corporate social responsibility (CSR) agenda and particularly the rise in interest in Socially Responsible Investment (SRI) - supported by Government and encouraged by changes to the Pensions Act and other developments - offers opportunities to work with investors to promote health and safety. SRI is a potentially powerful lever if health and safety can be established as an important dimension of corporate social responsibility.

Current guidelines and indices on socially responsible investment refer to health and safety in general terms. They have yet to be underpinned by useful indicators of company performance, which investors could use to assess current behaviour and encourage improvement. Initial discussions with several pension fund management companies and with other organisations with an interest in SRI indicated potential enthusiasm for the proposal that HSE might help develop such indicators for the use of financial institutions. Good management of health and safety risks may itself be a useful indicator of good company management.

Initial discussions suggest the need is for some general indicators to provide investors with a broad brush outline of the adequacy of a company's health and safety performance. There may be a need for additional sector specific indicators and this will need to be further investigated. However, the HSE does not have detailed experience of financial markets and the needs and interests of investors. As a result, the HSE has commissioned Claros Consulting to conduct an informal survey of institutional investors, with a view to identifying potential indicators, and recommending actions which could help the HSE work with investors to promote Health and Safety at a boardroom level.

### 1 Methodology

The study was based around a series of meetings with members of the investment community. 10 meetings were held – 6 with fund managers; 2 with industry organisations; and 2 with research organisations. In addition, a workshop was held with seven representatives from the financial sector. The intention was to obtain a reasonable sample of opinion from the more motivated (in terms of looking at H&S) financial institutions. (See below for a discussion of the financial markets and the participating institutions.)

The interviews were structured in a relatively informal manner. The first part of the meeting was left open to enable the participants to express their views without prompting, before the discussion focused on key issues and candidate indicators.

The project started with some preliminary research to ensure that the meetings with investment professionals would be as productive as possible. As a result of this research three briefing papers were produced and sent to interviewees – one on an overview on reporting, another on the business case for H&S, and the third on existing reporting activities. These are enclosed in the Annex.

The project then developed a list of candidate indicators. From this a reduced list was selected and integrated into an outline questionnaire. This was used as the basis for the meetings.

### **1.1 Overview of financial markets**

There are two major categories of institutional investors in the UK – pension funds and the life insurance industry. Pension funds in this context are sponsored by companies or other organisations (such as local authorities). Life insurance companies include a number of well known names (e.g. Prudential, Norwich Union – the trading name of CGNU plc.). In terms of assets, there are around 10 pension funds worth over £10bn, and around 100 with assets of over £1bn, and several hundred smaller funds. Life insurance companies are typically much larger – with the largest having £100bn of assets or more. The trade bodies for these two sectors, the National Association of Pension Funds and the Association of British Insurers were interviewed as part of this study.

However, this represents the top level of organisation, responsible for collecting contributions, paying benefits, and supervising investment. The actual day-to-day management of investment is usually handled by specialist fund managers. Some, typically larger pension funds, are managed by internal fund managers and two such pension funds were interviewed – the Universities Superannuation Scheme and the BP pension fund. However, most pension funds subcontract out investment management to an external fund manager. These can be independent fund management organisations or subsidiaries of banks or life insurance companies. Most life insurance companies have their own in-house fund managers, but also often to a greater or lesser extent seek to manage external funds as well. Four independent fund managers were interviewed. Two were fund manager with large teams specialising in SRI (and both subsidiaries of large life insurance groups). These were the Henderson Investors (part of the AMP group) and Morley fund management (part of CGNU plc). The other two were large fund management institutions specialising in pension fund management, both a commitment to SRI but without the extensive resources of the others. One, Schroders Investment Management, is a public listed company; the other Hermes is closely linked to two large pension funds. In addition two fund managers attended the workshop – Jupiter Investment Management, which operate some of the longest established “green” funds, and SocGen investment management, which specialises in pension fund investment.

The recent regulation of the disclosure of pension funds has caused a great increase in interest among the pension fund and investment management industry in socially responsible investment. To date, most pension funds have chosen to respond through an engagement policy on their mainstream funds – raising social and environmental issues with companies and seeking to ensure that that such issues are properly managed by the board. A smaller but growing number of funds take social and environmental issues into account when selecting companies, partly on the view that good management of social and environmental issues tends to be a good indicator of social and environmental issues.

It is worth understanding the relationship between investors and investee companies. Large institutional investors exercise have considerable influence over companies – institutional shareholders collectively account for over half the shares of most British companies, which essentially means they can decide the fate of the company if there is a consensus – for example in a takeover situation or if there is a widespread view that the senior management needs changing. However, note that consensus is far from certain. Large fund managers also

enjoy very good access to the senior management of a company. Engagement with companies on social and environmental issues is a growing activity, and can be successful in getting companies to change on these issues. However, success cannot be guaranteed. At the risk of generalising, where the management of a company has an underlying willingness to listen and consider change, pressure from one or two investors on such issues may be effective. In contrast, when company management is reluctant to change for whatever reason, pressure from wide number of investors may be required to force change. Another issue is that determining the effectiveness of engagement by investors is difficult as there may be a number of pressures on a company to alter its practices. Indeed it is precisely when investors combine with other pressures (e.g. from the public, from regulators) that change is most likely. It is also worth noting that for most investors there are substantial practical issues concerning the number of companies it is possible to engage with (see later) and the number of topics to engage on.

Complementing the fund managers, a number of organisations provide research and advice on issues of corporate social responsibility. Their clients are the fund managers and pension funds. The services provided by these organisations range from gathering basic information on social and environmental issues, through to research and analysis of a company's social/environmental performance, through to detailed advice on voting and corporate governance. A key role is to provide a summary analysis of whether a company's management of factors such as H&S is adequate or not. Two organisations were interviewed directly – EIRIS, the leading provider of ethical, social and environmental information to fund managers, and PIRC, a leading independent provider of corporate governance advice, with strong links to the local authority markets. In addition three research organisations attended the seminar – these were Manifest, a corporate governance and CSR research organisation, SERM an environmental rating agency, and Global Risk Management, which provides social and environmental analysis of companies. Note too, that the NAPF, through its voting issues services, also provides some research and corporate governance analysis to pension funds.

Two significant categories of investment institution were not interviewed:

*External managed pension funds* – as mentioned above, most pension funds are managed by externally fund managers, with the trustees taking policy decisions. Nonetheless in many cases the trustees of the pension fund retain an interest in certain aspects of the investment process – in particular, a significant number of pension funds (including local authority funds) operate their corporate governance / shareholder voting activities independently, usually under advice from one of the organisations specialising in corporate governance advice. As there are a great number of pension funds, and most are unlikely to have detailed views on health and safety, and because most of the advisory organisations were interviewed directly, it was not felt to be a necessity to interview such organisations directly.

*Investment banks and stockbrokers* – investment banks are responsible for most of the traditional financial research in the city. As such they have a potential role in analysis and interpretation of health and safety data, particularly if it is relevant to financial performance. At present, only a few investment houses have started to research social and environmental issues explicitly, although this market is likely to develop.

## **2 Interview Results**

### **2.1 Overview**

Firstly, it should be noted that, although a range of organisations were interviewed, the sample of interviewees was biased towards those more interested in CSR and SRI. Thus it would not be realistic to take the views expressed as representative of the entire financial markets. However, it is fair to say that the views expressed are indicative of a significant proportion of the financial markets.

There was something of a split in investment institutions in the extent to which they were interested in the details of H&S. Many institutions, particularly those with only limited resources on SRI are likely to be interested in the H&S at the broadest level – such as whether the board has considered H&S as an issue. Their approach is very much in the spirit of the Turnbull report and the ABI guidelines, which leave it to management to identify significant risks and state they have done so. The role of investors is essentially to ensure that the board has done this, not to second guess what the board should assess as major risks or how to manage them. Thus, typically such investors felt that the board should be responsible for assessing how important H&S was and how it should be addressed. Their governance role would be essentially to ensure that the board had done this properly and was managing risks properly. Normally, a statement from the board that this had been done would largely be sufficient (such investors start from a position of trusting the boards of companies in which they invest). Going beyond this would require some real evidence of poor management or excessive risks.

In contrast, some fund management institutions, particularly those with more extensive SRI research resources, as well as the various research organisations were rather more interested in details of CSR. Essentially, they were prepared to verify any claims of the management on aspects of CSR, through examining reports in detail as well as looking for third party disclosures.

Note, that research and corporate governance organisations, in particular, have an important role to play in considering H&S in an investment context. They are able to devote substantial resources to understanding and analysing significant issues, and can particularly help reach a wider financial audience by summarising information on H&S. All the research organisations had considered health and safety issues to some extent and were generally very interested in H&S issues. Their high level of interest in H&S is clearly illustrated by their high level of participation in this study. The HSE should consider developing links with these organisations, as potential important gatekeepers to the financial market.

A number of investors expressed some concern about being pressurised to “enforce” Health and Safety within companies – investors are reluctant to be seen as “policemen” on such issues. While recognising the need to address Health and Safety in so far as in impacts on risk, they take the view that it is primarily up to the relevant authorities to enforce appropriate standards. However, if the authorities do that, then investors are likely to be more interested in encouraging companies to take a pre-emptive approach to reduce risks and potential regulatory and other costs.

## **2.2 *Investor's Activities on Health & Safety***

Among the fund managers there was a mixed response on the extent to which they had looked at health and safety. Excluding the research organisations, three interviewees had looked at health and safety, one quite extensively, either as part of analysis or as part of engagement process. Others had observed the extent of health and safety reporting as part of an overall assessment of disclosure. The remainder had not actively considered health and safety issues at present either in analysis or in engagement with companies, partly because of lack of resources.

In contrast all of the research organisations had considered H&S and provided some information. EIRIS collects data on enforcement notices and prosecutions from HSE and is also developing a basic assessment of Health and Safety management for all companies. PIRC considers H&S issues as part of its assessment of employee relations. The NAPF voting issues services summarises any information on Health and Safety that appear in the annual report. SERM includes Health & Safety in its model of the risk to capital from social and environmental issues. GRM includes analysis of Health and Safety in its assessment of companies. The extent to which they looked at it was to some extent limited by demand from investors for this sort of information. See the annex for some examples of research by financial institutions on Health and Safety.

## **2.3 *The Business Case for Health & Safety***

All the respondents generally considered H&S to be an indicator of good management, which should be seen as a positive result in view of the limited supporting research. There were some different perspective – some saw it in a risk management context, with the implication that poor H&S risk management was an indicator of poor risk management. Others saw it as more of an indicator of employee morale and the respect shown to staff, and thus relevant to measures such as human capital – in which case the focus was more on corporate culture rather than formal policy and systems.

Despite this, there was general support for conducting and/or disseminating more research on the business case for H&S – this would help make it easier to devote resources to H&S analysis and to engage with companies on the issue. It would certainly be useful to demonstrate that good H&S does not cost and to address the question of whether strong short term competition means companies take on risks and hope to get away with them.

Three respondents said that they would like to see more information demonstrating the assertion that boards were not paying enough attention to H&S.

Investors were questioned about the potential use of the broader macroeconomic case for H&S (that the costs of H&S fall across the economy as a whole and thus acted as a drag on growth, even if they may not affect individual companies significantly). About half the respondents thought there was some merit in the argument but felt that it was hard to see how practically to use these links, and for them it was much easier to work at a company level.

Similarly, although those interviewees who were part of the life insurance industry could see the links to underwriting side of the business, they felt it would be difficult to engage that side of the business. A possible problem, mentioned by one interviewee, is that the incentives structures within fund management provide no motivation for making such links.

One interviewee suggested a way forward if the HSE/C thought it appropriate to pursue this area. This would be to develop some strong research on the costs to the economy, the potential gains if H&S losses were reduced and also the costs to the underwriting industry, and then to convene a high level group of company chairmen, senior life insurance industry executives, and leading investors to consider ways forward.

### **2.4 Criteria for Assessing Indicators**

There was widespread agreement on this area. Firstly, in terms of indicators, there was general consensus that a relatively small number of indicators – with 5 to 6 being generally thought appropriate. Investors suffer from information overload and need H&S data to be adequately summarised.

In terms of the characteristics of indicators, while most interviewees thought all the issues mentioned were important, two were picked out by several interviewees:

- Indicators should be significant or material to the company concerned (i.e. indicative of important risks), and
- **Indicators should be comparable between companies.** This is perhaps the most important feature for many – investors will typically judge a company in relation to its peers – difficult if the data is presented differently between companies.

The latter point is particularly relevant. For example, in the review conducted before beginning research, it was discovered that, while many companies reporting on their lost time injury rates, the units used varied widely – rates were reported per million hours worked, per 2000,000 hours worked and per 1000 employees etc. The HSE could play a leading role here in providing guidance on standardised methodologies and reporting terms.

As an extension to this, many interviews noted the importance of indicators being applied on a global basis. The investment business is essentially global – many UK companies have substantial overseas operations, especially those in higher risk areas such as resources (e.g. BP, RTZ) – and, for investors, these overseas operations may be as important as the domestic operation when assessing management performance. For other companies the main comparators are overseas (e.g. Corus). Finally, some significant UK business are subsidiaries of overseas companies. Thus any guidance should link to other international initiatives seeking to standardise performance indicators, such as those being developed by the Global Reporting Initiative (GRI) and the European Chemical Industry Federation (CEFIC), as well as to other regulatory bodies. This would introduce further complications, but it is important to address these if H&S reporting is to develop – for instance, the lost time injury rate as favoured by CEFIC and others is usually based on injuries involving at least one day off work, as opposed to the UK's RIDDOR requirements of reporting injuries involving three days or more.

Interviewees were particularly questioned on the importance of having indicators and other data independently verified. Views varied on quite how important this was, with some being relatively trusting of boards and somewhat cynical about verification, to others who felt that this would be a major step forward. However, the general consensus was that verification was useful but not essential - for instance, there was a danger that verification could impose costs and therefore make disclosure less likely. As a result, it should not be seen as a priority and it was more important to encourage widespread disclosure.

### **2.5 Familiarity with Health & Safety**

There was generally only a modest level of knowledge among the interviewees of health and safety management practices. However, there were some exceptions and a surprising number of links to H&S – one interviewee had worked in H&S in industry before working in SRI, another brought along his company's H&S officer, and had been in dialogue with him on the organisation's CSR report. Another fund manager has had extensive informal links with someone working in H&S in the construction sector, and one of the research organisations had a senior Health & Safety expert chairing their advisory panel.

In addition, many of the considerations currently of concern to those seeking to improve H&S management were also intuitively grasped by the interviewees. Factors such as the need to assess culture rather than rely on policies and systems, the need to focus on the process as much as outcomes, the importance of focusing major risks and the need to use multiple indicators to assess H&S performance were all readily understood by the interviewees and, in many cases, raised without prompting.

There was a general interest in learning more about H&S, and particularly best practice and current developments, especially among the more resourced fund managers and research organisations. The HSE could consider holding workshops and/or producing a guide focusing on best practice board level management of H&S.

No respondent could cite good examples of H&S practice in terms of reporting and board level involvement (this in itself may be indicative either of a low priority accorded to H&S by boards, or a lack of urgency in communicating on H&S. In a few cases, but not all, it may reflect the fact that the investors had not studied the area in detail).

### **2.6 Indicators**

Three interviewees felt that they could not really discuss indicators except in the broadest sense. Several others felt they could only really respond in terms of general categories of investors and were not in a position make detailed choices.

Indeed, around half the respondents reflected that it was perhaps up to the industry and the H&S profession to advise investors on what they considered to be the best indicators for the investors to use, rather than investors to dictate to industry. The investment industry could provide advice on what made a good indicator, but industry was best placed to know what would work for them. A good way forward would be for the HSE to identify good practice in industry and to work with those companies to encourage other companies to improve consideration of H&S issues in other companies. Investors would then find it easier to apply pressure on the laggards.

### **Policy and Board Indicators**

Most interviewees agreed on the importance of board level indicators and indeed such indicators of **board involvement were considered among the most important**. Knowing that the board had considered the H&S policy and had signed it was important and fitted in well with the Turnbull recommendations.

There was general agreement that having a director responsible for Health and Safety on the board was a useful indicator. One fund manager, however, dissented taking the view that the

board had collective responsibility and it was the chairman who was responsible for ensuring H&S was on the board agenda and the CEO for implementing the policy. This is probably valid in a strict sense, but one way forward would be to regard the named director as a contact point or “champion” for H&S matters, and with relevant training, rather than “responsible” in terms of liable or legally responsible. Another suggestion for a related indicator was that there should be director on the committee responsible for developing H&S policy.

There was also general agreement that it was important to have the H&S policy properly adopted by the board – in the sense that it should be regularly reviewed, signed by the chief executive, made public and properly disseminated to staff. However, it is not clear that this can be seen as a simple indicator.

### **Management indicators**

The difference between the two groups of investors became apparent with the discussions of other possible indicators. The group of less resourced investors were content primarily to focus on the board indicators, to trust the board usually, and only really focus on the other indicators if they were alerted to weak H&S practice by some event or study. The other group of investors were essentially interested in going beyond the assurances of the board and verifying the H&S management and performance to some extent.

Management indicators were generally seen as very important but there was little clear understanding of which specific indicators were most important. Many of the debates in H&S management today are implicitly reflected in the views of investors, including matters such as the importance of a safety culture, the use of audits etc. The challenge is to find a way to highlight good management practice simply.

A number of investors highlighted the importance of resources devoted to H&S and particularly training as a key indicator. This reflects a desire to assess culture and practice.

The other aspect that was considered important was the internal use of a number of quantitative indicators, assessed by the company as relevant.

Overall it was difficult to identify a simple management indicator directly. Perhaps the best way forward would be through encouraging an open reporting of management practices – which would enable research organisations (and fund managers when they felt it appropriate) to assess management overall.

### **Reporting**

The level of reporting is itself a key indicator. Investors are increasingly pressing for good investment of social and environmental issues, and health and safety fits naturally into these calls.

There was particular interest in reporting of performance – which is indicative of a high level of management commitment and openness.

### **Performance indicators.**

On performance indicators, there was a general view investors felt a more detailed analysis of indicators would have to be done on a sector by sector level, as industries were different, and that the industries should identify what was important.

However, many investors felt that fatalities were important, because of the potential implications in terms of liability and reputation. It was recognised that there were statistically limitations to such a measure. However, it was also felt that how a company dealt with fatalities was an important test of the company's culture, and of the processes for reviewing and developing H&S systems.

There was a feeling that some indicators of broader injury performance were also important, although most investors did not have specific views. Probably the Lost Time Injury Rate is most acceptable here as a general indicator, being most widely used by industry and most standardised – although, as discussed above, further progress is needed on standardising the units used and the methodology. Investors are implicitly aware of the criticism of this indicator, as a single measure that does not present a complete picture but, if a single measure of accident performance is to be used, this is probably the most acceptable.

There was considerable support for the disclosure of the absenteeism rate as an indicator of health performance, and one that is reasonable standardised (although not without difficulties as one respondent pointed out – for example use of flexitime may reduce notional absenteeism).

There was also a fairly high level of interest in the number of enforcement notices and convictions. These provided independent measure of companies' performance. However, as an indicator, they can be somewhat variable as they are subject to the level of enforcement by local authorities, as well as being difficult to compare internationally. Many of the research organisations already use this data although it could be made more accessible (a key issue is linking data on a particular company to its parent listed company.)

### **Cost Indicators.**

There was considerable interest in the development of financial indicators to show the cost of poor H&S. While indicators of environmental costs have been discussed for some time, initial consideration suggests that developing a cost indicator of losses from poor H&S may be much more straightforward. It could include lost time costs (at the higher of employee cost or replacement cost), fines, liabilities and legal costs arising from H&S, costs of shutdowns and inquiries etc. Ideally it should also include factors such as estimates of management time involved in responding to incidents, but this may be more subjective. Cost indicators would put H&S in terms financial analysts can understand, and would make the board more likely to consider H&S. Clearly where H&S safety costs were a significant proportion of profits, action is likely (conversely if it is not significant, it may encourage a relaxed attitude to H&S.) The HSE could consider working with accountancy bodies and leading companies to pilot such an indicator, based on work they have already done.

As well as indicators of cost, financial indicators of input – i.e. financial resources devoted to H&S in term of training and management were also seen as of potential interest. However, one interviewee felt such a measure could be counterproductive (i.e. is this investment a waste of money?).

## **2.7 Third Party Assessment of H&S Management**

There was considerable, although not universal, interest in the idea of developing a third party assessment of H&S Management, in a similar manner to the Business in the Environment index of environmental engagement. The idea is that an independent organisation would question leading companies on their approach to H&S management, policy and reporting, and the results scored to provide a rating and/or ranking. A committee of HSE professionals would develop the questions. The focus would be on the higher level management of health and safety rather than specifics of site level management, in much the same way as the BiE index focuses on companies' overall engagement with environmental issues – thus it would complement the various awards and other indicators that current exist. More details can be found on:

[http://www.business-in-environment.org.uk/s\\_b\\_engagement.html](http://www.business-in-environment.org.uk/s_b_engagement.html)

The BiE index has been very successful in encouraging boards to take environmental issues more seriously. By explicitly comparing and publicising the results the index has created a sense of competition – directors respond to being compared in this way, with both praise for the leaders and a degree of “shaming” for the laggards. Anecdotes exist of companies being determined to improve their environmental rating and get out of the bottom quintile. It also provides companies with a simple method of benchmarking their environmental “engagement”, and communicates implicitly what they should be doing. The BiE index is used by investors – for example the NAPF provides details of companies' ratings, and it has been used to identify companies for engagement on environmental matters.

A Health and Safety Engagement Index appears perfectly feasible. Although it would be useful to investors as a simple benchmark, its greatest strength is that it would directly serve to encourage company board directors to take H&S more seriously and encourage a sense of competition. In addition, through the questions asked, it also provides a way of disseminating best practice.

One recommendation of this study is that the HSE should consider the development of such an index, probably in conjunction with others (e.g. RoSPA). However there are some key preconditions. Firstly, there needs to be sufficient financial backing to ensure success. Secondly, there should be support (at board level) from at least a core group of companies who will agree to participate and ideally encourage other companies to take part – Business in the Environment has the advantage that it is essentially a business led initiative, which encourages other businesses to become involved.

## **2.8 Workplace Health**

Interviewees were particularly asked about the issue of workplace health and how health management and safety should be monitored and encouraged. While some investors identified a number of aspects that could be considered relevant, such as workplace health programmes or provision of fitness centres and healthy food options, few meet the requirements of a good indicator. The exception was an indicator of absenteeism (all absenteeism, not just work related illness), which while flawed did provide useful information (if absenteeism is high and not health related, it is probably an indicator of poor human resources management generally, something also of interest to investors).

What particularly interested many investors, however, was that employee health generally was probably a good indicator of employee motivation and productivity. This is an area of considerable and growing interest to investors as “human capital” is increasingly seen as a key contributor to corporate success. While a number of other indicators (staff turnover, training) are also relevant in measuring human capital, health context was seen as particularly important and a fundamental measure of whether the company respects its staff. Indeed with many companies in the service sector (including the financial services sector itself), interest in employee health was seen as more important as a driver of human capital than as a regulatory issue.

In support of its strategic goals, the HSE/C could research and explore the links with human capital more fully. Such arguments are likely to have significant boardroom appeal directly, as well as appealing to investors.

### **2.9 Selected Sectors and Health & Safety**

Investors had limited views on the three key sectors, feeling that it was really a matter for industry to develop indicators that were the most important to their sector. They did however recognise that the subcontractors were clearly a major issue in the construction industry, and that reputation risks increased the importance of H&S in the retail sector.

However, one investor raised an interesting possibility with the construction sector. Institutional investors own substantial amounts of property as investment (typically commercial property such as offices, shopping centres and hotels) – as well as being investors in the larger quoted construction companies. As such, this means they firstly have some direct H&S responsibilities arising from the ownership of this properties, as well as considerable influence over the contractors and developers in the sector. Already, partly in response to the SRI regulation, many institutional investors have started to consider the environmental aspects of their property portfolio. They might be persuaded to consider the health and safety aspects of property portfolio as well if a reasonable case can be made to them that it would not involve significant costs and might reduce risks.

Such an action would probably be best organised by a group of investors prepared to work collectively. Ultimately they may be able to link their buying power as property investors together with their influence as equity investors in many of the leading construction companies. There would be some necessary pre-requisites. Firstly, investors would need some workable “tool” for encouraging consideration of Health and Safety issues within the construction industry – investors have only limited time and cannot afford to develop such mechanisms themselves. Secondly, it would be useful to have some indication both that H&S issues were significant within the specific parts of the property/construction industry which are relevant to institutional investors (i.e. the larger commercial sector) and that such an initiative could help address H&S concerns across the whole construction industry.

## **3 Conclusions and Recommendations**

### **3.1 Conclusions**

This study has discovered a significant level of interest in Health and Safety among institutional investors, and that it fits well into corporate social responsibility / socially responsible investment. Investors are generally supportive of the idea that the good health and safety performance is an indicator of good management, and are generally interested in finding out more about Health and Safety.

Investors had some views about specific H&S indicators. However, there was a feeling that the H&S industry was best placed to identify suitable indicators, and investors could then support their adoption. There was much stronger agreement on the nature of suitable indicators, with a relatively small list of relevant, comparable indicators being seen as desirable. Nonetheless it has been possible to develop a list of potential indicators, listed below, based on those that were recognised by investors, and that meet the basic requirements sought by investors.

Although investors had limited technical knowledge of H&S, they are instinctively aware of many of the concerns of the health and safety profession – in areas such as the importance of input measures over output measures. In particular, investors share with the HSE a recognition of the importance of focusing on major risks, and not being diverted by a systems approach which addresses minor risks but fails to prevent major incidents. However, the problem is identifying suitable indicators that do this – and investors look for the guidance of the HSE in this regard. However, this study tries to accommodate this concern in two ways. Firstly, by recommending the level of reporting of management practices as an indicator (which allows investors and others to assess whether the management processes are adequate) and secondly, by suggesting the development of an H&S Engagement index as a option, which would allow the development of multi-faceted assessment which would be as robust as possible.

Possibly as significant, this report has identified a number of ways in which the HSE/C could work with investors and others to promote H&S in the boardroom, in the furtherance of HSE/C strategic objectives. These are listed in the second set of recommendations. These provide a number of ideas of how HSE could develop its relationship with investors. Working with investors can provide a direct route to senior management, and help reinforce other initiatives and actions. However, action with investors should be seen as a complement to other action to promote and encourage Health and Safety (including effective enforcement), rather than a substitute for action elsewhere, and the HSE should consider activities which helps focus the attention of investors (such as naming and shaming companies whose H&S performance is unsatisfactory.)

### **3.2 Recommendations 1: Indicators**

The following set of indicators appears to be closest to meeting the needs of the investment community. They have been chosen on the basis of the criteria identified, with particular emphasis on comparability. They provide a broad overview of H&S at a company level, and should enable investors to determine whether H&S is being appropriately managed.

- 1. Has a director been named as a H&S champion?**
- 2. Level of reporting of H&S management systems**
- 3. Number of fatalities**
- 4. Lost time injury rate**
- 5. Absenteeism rate.**
- 6. Cost of H&S losses.**

On indicators 4 to 6 it is important that a standard methodology be agreed for computing and presenting the figure. On indicator 6, the assistance of accountancy bodies would be desirable – see the recommendations on supporting actions below. This list of indicators should be seen as provisional and investors would be receptive to the recommendations of the H&S profession.

### **3.3 Recommendations 2: Supporting Actions**

There are number of supporting activities which HSE could undertake in furtherance of its strategic goals:

1. Consider helping establish a business led initiative on H&S, or at the very least identify and work with some H&S champions from the industry.
2. Consider the creation of a H&S management index, as discussed above.
3. Support further research on the business case for H&S, whether case studies, industry based, whole market or macroeconomic. This includes both the commissioning of new research, and identifying and disseminating existing research.
4. Develop further research and communication activities on key aspects on boardrooms and H&S – for instance, clearer communication of trends and developments in H&S (such as the potential for rising liabilities) and clearer demonstration of the case that H&S is often neglected at boardroom level.
5. Establish a workshop bringing together H&S professionals and interested financial organisations (particularly research organisations) to discuss how to identify good and bad practice in HSE at companies.
6. Work with the accountancy profession on developing some standardised H&S cost indicators.
7. Consider the formation of a special working group on Health and Safety in the property and construction sectors bringing together investors, contractors and health safety professionals.

## APPENDICES

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## **A1. Briefing Note 1: Health & Safety indicators for institutional investors**

### **Introduction**

The Government's new 'Revitalising Health and Safety' strategy requires the Health and Safety Commission/Executive (HSE) to find new levers of influence to motivate business at Boardroom level to improve health and safety. The HSE has identified that investors may be a significant force in encouraging companies to take a higher interest in health and safety, particularly in view of the governments pension disclosure regulation and the rising interest in SRI.

In particular, the HSE has noted that there is widespread support for the greater disclosure of information of social and environmental information by companies, and clearer identification of all risks facing a company, both financial and non-financial (Turnbull report, ABI guidelines etc). Greater disclosure in itself is likely to lead to company management addressing such issues – they will be reluctant to reveal a poor performance. It also enables investors to open a meaningful dialogue with management in areas of potential concern.

However, investors based disclosure guidelines to date have little specifically on health and safety. Although the HSE has issued guidance on reporting by companies, at <http://www.hse.gov.uk/revitalising/annual.htm>, the guidelines have not been directly adopted by the investment community. Existing reporting on Health and Safety by companies is patchy (see accompanying note), and lacks consistency.

The HSE is therefore keen to explore the potential to develop a set of mutually supported indicators of health and safety, which investors can encourage companies to disclose, and which can provide an overview of the performance of a company.

### **Investors perspective**

Of course investors have different perspective from the HSE, and are primarily focused on financial performance and fiduciary responsibility. Nonetheless, H&S safety indicators may be useful in achieving this objective, and there may be considerable synergies between investors objectives and the goals of HSE. For example, H&S indicators may provide an indication of management quality of a company. They may also provide a warning of increased risks if H&S standards start slipping.

Given the key importance of performance to investors a key issue is the extent to which H&S is relevant in performance. The second accompanying note looks at some of the arguments linking H&S and financial performance, but there is clearly scope for more research.

Another issue for investors are likely to be the practical issues surrounding indicators. These include: how many? To what extent are they comparable? Should they be verified? How timely? How widely used? Are they compatible other initiatives?

***Questions for investors***

- *To what extent have you raised health and safety issues with company management or otherwise used them?*
- *Do you accept that health & safety performance is an indicator of overall management performance?*
- *Would you like to see more research and information on the business case for health & safety? Is this essential?*
- *Do you think the broad macroeconomic argument in case of health & safety has relevance for you as investors?*
- *How much information / how many indicators on H&S are appropriate to you?*
- *What characteristics of indicators are important to you?*
- *Do you have particular examples of best practice?*

**Potential indicators**

There is a wide range of different indicators that could be developed to highlight H&S performance. The following illustrate are the main types of indicator:

- *Policy indicators* – indicators of policy and boardroom commitment to H&S. This include is there a main board director responsible for H&S, is the H&S policy reviewed and re-communicated annually?
- *Management indicators* – These include the extent of H&S audits; extent of training; the setting of targets; the involvement of staff and others in setting policy and targets; regular assessment of the safety “culture”, the use of formal systems etc.
- *Reporting indicators* – the extent to which the company reports on its policy performance, and targets.
- *Performance indicators* – results of health and safety performance. Examples include fatalities, injuries, work related illness, fitness monitoring, property damage, near misses etc. A commonly used indicator is the Lost Time Injury Rate, which measures the frequency of injuries involving the worker having to take time off work.
- *Cost indicators* – Financial indicators of the cost of H&S to a company. Most significant could be indicators of H&S costs (lost employee time, liabilities etc). Also potentially relevant is the investment in H&S management (including training & audits).

Although output indicators (i.e. performance) are can be more objective and numerical, they have a number of disadvantages in the area of H&S. Injuries are to some extent random, and so injuries rates may not be particularly meaningful in smaller companies (<1000 employees). A focus on relatively minor injuries (slips and falls) may distract attention from more fundamental risks (e.g. explosions). Thus H&S professional are keen to encourage the use of multiple indicators.

***Questions for investors***

- *Which types of indicators do you feel are most relevant to you?*
- *How familiar are you with measures of H&S management and performance?*
- *Would you welcome more information on issues in H&S management?*
- *Is there a role for indicators developed by third parties to assist analysis of companies?*

## **Health**

It is issues of safety – accidents and injuries – that most often grab the headlines and receive most attention. Although safety is clearly important, the HSE is keen that as much attention is paid to health. While less spectacular, the social and economic damage caused by work related ill-health is in many ways more significant than accidents. Stress, bad backs, RSI and other largely work related conditions are estimated to affect some 2 million workers. Thus, this project is keen to identify suitable health indicators. Indeed, health indicators may also be more closely linked to other employee related indicators, such as worker satisfaction and motivation, and thus provide a deeper insight into the company.

However, a key issue with health related issues is that companies are reluctant to accept that an individual case is work related, partly for reasons of liability, and so deciding which health problems are work related and which not is difficult in developing indicators. There is an argument for ignoring this and focusing on general measures of employee health, such as the absenteeism rate, and health management policies.

### ***Questions for investors***

- *Do you agree that employee health is likely to be an indicator of employee motivation?*
- *What health indicators are most relevant to you?*

## **Company perspectives**

Government and the HSC have challenged top UK companies to publicly report on their health and safety policies, targets and performance. HSC, in support of the challenge, has published guidance (“Health and Safety in Annual Reports”) which sets out the information and data companies should report on annually commencing 2002. HSC/E are currently reviewing the guidance in light of comments received from top companies. Concerns have been expressed about some of the target setting and performance indicators. It is intended to issue revised guidance to the top companies in May 2002, and to reflect the views on investors as well. The aim should be to have a suite of performance indicators adopted by companies as their reporting standard, and ones recognised and utilised by investors if they so decide.

This study will seek to bear in mind the practicalities of producing any recommended indicators for companies, and any other issues they may have with them (e.g. confidentiality). However, at this stage we are primarily trying to assess the views of investors. It is expected that the views of companies will be sought once draft indicators have been developed.

## **Public Liability**

Most health & safety issues are directed towards employees of a company. However, H&S can be more generally relevant, particularly when the public visits the place of

work<sup>1</sup>. Thus H&S is directly applicable to the retail and leisure industries (and to other industries with a retail presence – e.g. banking or oil & gas). Transport is another sector where health & safety is relevant to the public, with Railtrack provides an all too notorious example. Occasionally, there may be consequences at other companies, where the public gains inadvertent access (e.g. children playing on company property). However, for many businesses public liability is more likely to arise in the form of product liability. While this study is primarily concerned with health & safety as such, indicators that cover public liability more broadly may be worth considering.

***Questions for investors***

- *Do you consider public liability indicators to be important?*
- *Do you have any suggestions for potential indicators?*

**Examples of H&S reporting**

The following companies reporting on H&S represent examples of good practice and you may find them useful:

BOC group (in the annual report)	<a href="http://www.boc.com/ir/annual1.cfm?cat_ID=23&amp;index=1">http://www.boc.com/ir/annual1.cfm?cat_ID=23&amp;index=1</a>
BP	<a href="http://www.bp.com">http://www.bp.com</a>
Carillion	<a href="http://www.carillionplc.com/sustain/per_4e.htm">http://www.carillionplc.com/sustain/per_4e.htm</a>
ICI	<a href="http://www.ici.com/icishe/2000/">http://www.ici.com/icishe/2000/</a> (click on past and then select on the blue bar)
Shell chemicals / Shell UK	<a href="http://www.shell.com">http://www.shell.com</a>
Smiths Industries	<a href="http://www.smiths-group.com/invest/reports/Health_Safety.pdf">http://www.smiths-group.com/invest/reports/Health_Safety.pdf</a>

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Claros Consulting  
21<sup>st</sup> January 2002

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<sup>1</sup> In terms of regulators the boundaries are complex – the HSE has direct responsibility for safety regulation at major facilities such as theme parks and railways, but not road transport (buses). For most retail and leisure premises it is the local authority that is primarily responsible for regulation (under HSE guidance). Air travel is covered by the CAA. Product liability is the responsibility of the DTI, often working with local trading standards officers. Food safety comes under the Food Standards Agency.

## A2. Briefing Note 2: H&S reporting – the business case

A key factor in persuading institutional investors to support the case for greater reporting of H&S issues would be if good health & safety performance were to be linked to good financial performance. This note therefore looks at the business case for improving H&S performance.

Ideally we would like research that directly identified a link between H&S performance and share price performance, ideally in the form of excess alpha after allowing for all other risks factors. However, findings of this kind are elusive. One study, from Australia does point in this direction. Research by Westpac Investment Management and Monash University Accident Research Centre<sup>2</sup> did find a positive link between H&S performance and financial returns. They developed a test that assessed the integration of sound H&S policies and practices in organisations. This was then applied to some 150 listed companies (based on capitalisation). An investment portfolio limited to those companies that passed the test was then compared to a benchmark portfolio of all 150 companies. Portfolio of good “H&S” companies outperformed consistently over the nine-year test period, by around 50-60bp on average.

One of the key challenges in such research is that information on H&S performance is not readily available and comparable – indeed one advantage of developing indicators would be to allow more research and analysis of this link.

Although limited direct evidence is available, there are a number of arguments that suggest that improving H&S at investee companies is likely to be in the interests of investors, either at a portfolio level or in the context of individual companies.

Firstly, at a macro-economic level there is substantial evidence that poor health & safety practices represent a significant cost to the economy and that improving health & safety has a positive impact on economic performance.<sup>3</sup> However, we cannot directly extrapolate these results to individual companies, partly because companies are able to externalise many of the costs of poor H&S - many of the costs fall on the public sector (through the national health service and other public bodies). In spite of this, responsible long-term investors should also be concerned about the health of the economy generally and should seek to support actions that enhance long-term economic growth (the “global investor” argument). In the case of Health & Safety, it is possible to see one clear way that many of the externalities associated with poor H&S will still affect the portfolio – through increased taxes to pay for the costs involved.

At a company level, there are still many ways that H&S lapses can affect the performance of a company. The financial impacts of H&S issues can be significant,

- Compensation to those affected / sick pay / early retirement costs;

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<sup>2</sup> Mentioned in Dennis Else and Greg Holloway: “OHS and triple bottom line sustainability”;  
<http://www.nswmin.com.au/ohs/pdf/2001/triple-bottom-line-performance.pdf>

<sup>3</sup> Davies N. and Teasdale P.; “The costs to the British economy of work accidents & work related disease.”; HSE Books, 1994

- Lost production, both from an incident directly or from missing ill staff;
- Management time involved in detailing with incidents, both immediately and in the aftermath, such as attending enquiries and reviewing procedures;
- The costs and management time involved in replacing /retraining staff.

Many of these costs could in practice be quantified, but rarely are. Note too that in an increasingly litigious environment the costs of H&S lapses is likely to increase – not only will those directly affected increasingly seek more compensation, but we may see other liabilities arise – it is easy to envisage the NHS starting to seek to recover the costs involved in treating work related illnesses, in the same way as they now seek to claim for the costs of treating motor accidents.

One example, albeit from the public sector, illustrates the potential. In the NHS bad backs are a common cause of absenteeism and nurses scarce and difficult to replace – with temporary nurses a significant drain on resources. One NHS trust, Wigan and Leigh, with 5000 staff, decided to address the problem. In 1993 they commissioned report into sickness among staff and found 44,000 hrs/yr were lost at an estimated cost 3.9 million. Losses due to industrial injuries were 11,635 hrs/yr, with nurses most commonly affected, and heavy lifting a key reason. They then developed a comprehensive package to address the problem, involving risk assessment, training risk assessors, purchasing equipment, and educating staff. The non-staff costs were £80,000 in the first year, £50,000 in the second. The results were that time lost due to lifting injuries fell from 6720 hours to 1082 in the first year, with further reductions in subsequent years until only 192 hours were lost. The cost of this lost time fell from £800,000 to £24,000

There are also significant indirect risks of HSE – where it is harder to assign costs. The two main areas:

- The potential for reputation damage (particularly from accidents)
- The damage to general staff morale

With both of these the financial consequences are hard to determine, but the potential costs could be far greater than the direct costs of lost time. Indeed, among company boards that appear to take HSE seriously, these appear to be key motivating reasons.

## **A3. Briefing Note 3: Current Status of HSE Reporting by UK companies**

### **Introduction**

This briefing note is based on a report commissioned by the Health & Safety Executive entitled "A study of the provision of Health & Safety Information in the annual reports of the top UK companies" conducted by System Concepts and completed in October 2001.

In the research 350 of the UK leading companies were contacted, and asked to provide annual reports. While most leading listed companies were contacted there were a number of omissions and exceptions. As a result only 52 FTSE 100 companies were in the survey (many of the other companies were in the FTSE 350, others are privately or state owned or subsidiaries of overseas companies.)

From the 350 companies 227 reports were received, and just less than half (107) contained Health and Safety information. For the companies in the FTSE100 31 out of 52 (60%) companies had any sort of health and safety information.

### **1. Quality of reporting**

Even where there is some reporting of H&S issues, the survey found that the quality of reporting is generally fairly moderate.

Most companies that report detailed information on their health & safety principles (94 companies, 88%). However in most cases the quality was classed as low (44) or medium(39), with only 11 reports being seen as high quality. Most reports included the broad context of the company's policy, as well as information on progress towards achieving a high standard of health and safety. Very few company reports however, detailed the significant risks faced by employees, arrangements for consulting employees, or health and safety goals, as recommended by the HSE.

In terms of H&S performance only 36 (34%) companies disclosed HSE performance information. Most commonly this was in the form of number of injuries, accidents and fatalities. Additionally several companies reported on number of lost employee days due to injuries and accidents, as well as details of safety audits and information on health & safety awards won. Most reports were of medium quality (29) (implying 3 to 4 items of a recommended 7 were enclosed), only one was giving a high rating.

Reporting of information of HSE targets was even lower, with only 14 companies reporting any information, and most reporting was only in the form of a broad statement (that the company had targets). Five companies did specify a numeric target, and were so rated medium.

## 2. Reporting by Sector

The table below shows the level number of companies reporting on HSE within each sector, compared to the total number of reports received.

There are considerable variations between sectors, and while generally high risk sectors show higher levels of reporting than lower risk sectors, there are still many sectors with significant HSE risks with poor reporting records (e.g. Automobiles, Steel & other Metals and Leisure & Hotels).

<b>Industry Sector</b>	<b>No of companies reporting H&amp;S</b>	<b>No of companies in sector</b>
Oil&Gas	9	9
Chemicals	4	4
Tobacco	3	3
Construction & Building materials	16	20
Electricity	9	12
Transport	9	12
Water	3	4
Pharmaceuticals	3	4
Support Services	6	10
Distributors	3	5
Engineering & machinery	7	12
Food& Drug Retailers	3	6
Aerospace & Defence	2	4
Food Producers & Processors	5	12
Telecommunications services	2	5
Media & photography	5	15
General Retailers	5	18
Automobiles	4	14
Electronic & Electrical Equipment	2	7
Leisure & Hotels	2	8
Beverages	1	4
Information Technology Hardware	1	9
Household Goods & Textiles	0	3
Steel & other Metals	0	3
<i>Others</i>	4	23

### 3. Assessments of reporting by individual Companies

The following companies were identified as have reasonable levels of reporting of HSE information. Note that some companies have been excluded from the original survey as they were not UK listed companies. Note also that some companies may have improved their reporting since the survey. Other companies may have not participated in the survey despite reporting on HSE. For example, BP plc does report on HSE issues, and under the classification below merits at least a Medium rating for reporting of performance.

#### Assessed as having MEDIUM reporting of Targets

BAA plc	LMM	Transport
BA plc	LMM	Transport
ICI	MMM	Chemicals
Smiths Group <sup>4</sup>	HMM	Aerospace & Defence

#### Assessed as having a HIGH rating for reporting of Performance

BOC Group Plc	HHL	Chemicals
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#### Assessed as having MEDIUM reporting of Performance

*(not mentioned above)*

Balfour Beatty	MM-	Construction & Building Mats
Blue Circle Industries	LM-	Construction & Building Mats
Carillion plc	MM-	Construction & Building Mats
Enterprise	MM-	Oil & Gas
Express Dairies Plc	LM-	Food Processing
GKN plc	HM-	Automobiles
GlaxoSmithKline	HM-	Pharmaceuticals
Kelda Group Plc	HML	Water
Kier Group Plc	LM-	Construction & Building Mats
Lattice Group	MML	Oil & Gas
Pilkington Group plc	HM-	Construction & Building Mats
Powergen Plc	MM-	Electricity
Rolls Royce plc	MM-	Aerospace & Defence
Scottish & Southern plc	MM-	Electricity
Shell T&T	MM-	Oil & Gas

#### Companies having HIGH rating in reporting of Principles

Rentokill Initial plc	H—
Rexam plc	HLL

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<sup>4</sup> Assessed as Smiths Industries prior to merger

## A4. Manifest's H&S indicators

The main indicators that Manifest search for are:

- *Policy indicators* – Policy existence (compulsory for companies of over 5 staff) indicators and content of policy.
- *People indicators* - Boardroom commitment to H&S. This includes details of: the main board director responsible for H&S, who the most senior non-board level executive is and if there is a Health & Safety sub committee.
- *Processes (Management) indicators* – These include the use of H&S audits; extent of departmental training and responsibilities; the setting of targets; remuneration levels for teams achievement of target levels of safety, achievement of standards/ assessed
- *Reporting indicators* – the public disclosure of company reporting on its policy performance, and targets.
- *Performance indicators* – results of health and safety performance. Examples include fatalities, incidents per 1,000 involving first aid, days absent from work, percentage of staff suffering Long term illnesses and work related illness, fitness monitoring, H&S/ stress reduction training events. We ask the Company and directly seek out number and levels of prosecutions.
- *Verification indicators* – If the H&S performance and procedures are verified

### FTSE All Share analysis

The FTSE All Share was polled by Manifest in mid 2001. Approximately 50% of the FTSE 100 and 32% of the FTSE250 were respondents. The results are that

- 91% of respondents stated that they have a Health & Safety policy (even though 100% will have as it is compulsory for any organisation with over five employees).
- 68% of respondents stated that they have a dedicated and named member of the board who takes responsibility for H&S.
- 61% of respondents stated that they measured H&S issues.

The new challenges for reporting to investors and analysing companies are the:

- requirement for companies to report in more detail on H&S issues, and a core standardisation for reporting, with more extensive requirements for different sectors;
- extent to which remuneration levels of staff (including Directors) are linked with non-financial measures – pollution levels, CO2 cuts and H&S amongst the possibilities,
- requirement to assess companies overseas activities and prosecutions that result from them,
- ability to search for prosecutions by parent Company name, thus ensuring that any subsidiary companies with a majority share ownership are included in any search,

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## A5. EIRIS Materials on Health & Safety

Topic	HEALTH AND SAFETY
Why is this an Issue?	As the treatment of workers and the improvement of employment conditions forms a major part of people's perceptions of a company's attitude to social issues, having a thorough, regularly reviewed system regulating health & safety is essential in order to be seen as being pro-active in addressing these concerns.
What we Measure:	<ul style="list-style-type: none"> <li>▪ Whether company has assigned responsibility for health and safety systems to a named senior person</li> <li>▪ Whether company has received one or more significant awards or commendations for the implementation and content of its health and safety systems.</li> <li>▪ Does the company provide clear details of the Health and safety training undertaken</li> <li>▪ Does company provide significant quantitative supporting data (for example, changes in accident rates illustrating its health and safety performance)</li> </ul> <p><i>In relation to the UK only</i></p> <ul style="list-style-type: none"> <li>▪ The company's three year record of health and safety fines</li> <li>▪ The company's health and safety convictions over the previous three years.</li> </ul>
EPM questions	<ul style="list-style-type: none"> <li>○ How Good is the available evidence of health and Safety systems</li> <li>○ How do the company's fines for health and safety convictions compare with other companies fines over the last three years? (UK only)</li> <li>○ Has any part of the company been convicted following HSE prosecutions more than once in the last three years/ (UK only)</li> </ul>
Grading	<p>Three Grades: (for first question above)</p> <p>Little or no evidence of Health &amp; Safety Systems</p> <p>Basic – at least on of the three elements measured</p> <p>Good - all three elements (named senior person, significant awards, clear details of training) OR named senior person and detailed quantitative data illustrating changes to performance and/or sectoral comparisons.</p>
Specific methodologies	<p>In the UK the Health and Safety at Work Act 1974 (reinforced by European Union Initiatives) provides the framework for the supervision of health and safety requirement by the Health and Safety Commission and the Health and Safety Executive (HSE)</p> <p>The HSE has helped to keep the number of workplace fatalities in the UK to under 300 a year. However, there remains understandable public concern about this issue, highlighted by a trend towards ever-stiffer fines for high profile breaches, Investors can show their disapproval of companies that break the rules by avoiding investment in those that have been successfully prosecuted by the HSE. One potential drawback with this approach is that it prosecutions necessarily reflect past events and give no clues as to whether companies have made efforts to improve their health and safety standards since prosecution.</p> <p>EIRIS uses the conviction registers published by the HSE inspectorates. When a conviction is recorded against part of a company that we research, we attribute the details to that company. Sometimes that part is later sold or the whole company is taken over. As soon as we are aware of this we attribute the details to the new company instead of the old one. We do not however, re-examine the registers when ownership changes occur or when we research a company for the first time.</p>

<b>Health and Safety</b>		<b>Tick if</b>	<b>Details</b>
		<b>Yes</b>	
<b>10.</b>	Does your Company make public details of its health and safety policy? (If yes, please provide details)	<input type="checkbox"/>	
<b>11.</b>	Has the company won any independently assessed awards in relation to its health and safety policy? (If yes, please provide details of the criteria and awarding body)	<input type="checkbox"/>	
<b>12.</b>	What form and amount of training on health and safety issues does the company provide to employees worldwide ?		
<b>13.</b>	Please provide figures for the following indicators. If other similar relevant data is available, please provide these as well		
	(i) Amount and proportion of operating costs spent on health and safety		_____
	(ii) Number of days/1000 employees lost due to accidents		_____
	(iii) Number of days/1000 employees lost due to illness		_____
Where available, please supply comparative figures on a year on year basis for these indicators to illustrate (a) Changes/improvements in the Company's health and safety performance over a set time period (b) The company's performance compared to other companies operating in the same sector/business area.			
<b>Labour Standards</b>			

Table is taken from EIRIS analysis of stakeholder issues (with minor edits)  
Questionnaire is extracted from main company questionnaire used by EIRIS.  
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## A6. NAPF Voting Issues Service: Examples

**SRI viewpoint – Kingston Communications (Hull)**

**Environment**

The Board states that it is committed to tangible improvements in the Company's environmental performance, taking into account the fact that the nature of the Company's operations provides limited scope for significant environmental improvements. The Company has nominated Ian McKenzie, Chief Operating Officer, as the director with special responsibility for environmental compliance. The Board also states that it intends to place particular emphasis on reducing energy consumption to benefit the environment and to reduce costs.

The Company reports that the recent restructuring of its operations will facilitate wider deployment of best practice already achieved within the business. The Company cites as an example environmental compliance programmes developed by Kingston Communications and Kingston Infrastructure as best practice which can be extended to other divisions.

In addition, the Company has introduced other initiatives which include hand digging around tree roots during the expansion of the East Yorkshire network; sharing infrastructure build with COLT Telecom plc as part of the Company's national network development; and the award of the Nordic Environmental 'Swan' mark for the 100% recyclable nature of the Company's printed telephone directories.

The Company did not participate in the 1999 or 2000 BIE Index.

**Health and Safety**

The Company states that it is conscious that new technology can impact on the welfare of its staff. This is particularly true of call centres. The Company reports that it has deployed successful policies of team working and stress management in its developing Call Centre business.

**Other**

The Company states that as a provider of telecommunications facilities it is conscious of the ethical responsibility to ensure that content and service providers using its facilities observe acceptable standards. The Company requires compliance with the Independent Television Commission Programme Code and the requirements of the Independent Committee for the Supervision of Telecommunication Information Services.


**Community**

The Company supports the local 'Business in the Community' initiative and arrangements are underway to replicate this support in other parts of the country. The Company states that it encourages its staff to contribute to their local communities. Staff act as mentors for the 'Children's University' aimed at raising the aspirations of 10-11 year olds. Active encouragement has also been given to staff to become school governors.

During the 2000/01 financial year the Company made charitable contributions of £127,955 (1999/2000: £136,596) and had pre-tax losses of £9.6m (1999/2000: pre-tax profit of £8.1m).

NAPF

Voting Issues Service



**SRI Viewpoint – Anglo American**

**Environment**

Anglo American was ranked 130<sup>th</sup> out of the 184 companies that participated in the 2000 BiE Index (1999: 72<sup>nd</sup> out of 76 FTSE 100 companies). The Company was also ranked 7<sup>th</sup> out of the 8 Resources Sector companies that participated in the 2000 BiE Index (1999: 8<sup>th</sup> out of 8 Resources Sector companies). See 'The Engagement Partnership' for details of the compilation of the relevant BiE Index. The Company was mentioned by BiE as one of the most improved companies in the BiE Index.

Anglo American has established a Safety, Health and Environment (SHE) Committee of the Board. This Committee is responsible for formulating and recommending Anglo American policies and monitoring their implementation throughout the Company. Currently, 13 companies in the group hold ISO 14001 certificates and the Company's aim is that all its operations should have implemented environmental management systems consistent with ISO 14001 by 2003.

The Company's policy on the environment commits it to: conserving environmental resources; preventing or minimising adverse impacts from its operations; demonstrating active stewardship of land and biodiversity. The Company states that it considers the efficient utilisation of energy, with the resulting contribution to mitigating global climate change; the demonstration of responsible use of land and water; and the judicious management of its waste materials as being fundamental.

Anglo American is a member of the World Business Council for Sustainable Development (WBCSD) and is one of the initiators of WBCSD's Global Mining Initiative, which will explore over the next two years how the mining, minerals and metals industries can contribute to sustainable development.

The Company has recently published its first public SHE Report. The Company has set targets to reduce its environmental impacts. These include requiring each business sector to: establish a water consumption baseline during 2001 and set targets to improve the efficiency of water consumption in 2003; set energy efficiency targets by 2002; use the Intergovernmental Panel on Climate Change guidelines to establish a baseline for greenhouse gas emissions and energy use in 2001; and establish a group policy in 2002 for a response to the challenges of global climate change, with a view to setting group strategy and divisional plans in 2003.

**Health and Safety**

Anglo American reports that its health and safety policy aims to prevent or minimise work-related injuries and health impairment of employees and contractors and to contribute to addressing priority community health issues. To reduce fatalities, the Company has introduced a zero-tolerance campaign and has engaged international experts to advise on necessary strategies.

In respect of occupational health, Anglo American states that it is committed to a substantial improvement in the effectiveness of its programmes to address occupational diseases. The Company has identified noise-induced hearing loss and occupational lung disease as priority challenges and states that it is seeking a significant and sustained reduction in the incidence of these conditions.

The Company also contributes to the improvement of community health, with particular emphasis on the HIV/AIDS epidemic in sub-Saharan Africa. The Company's divisions have been asked to assess the risks that HIV/AIDS pose for their operations, formulate plans to minimise the impact of the epidemic on their operations, whilst at the same time caring for those who are affected by the disease.

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## **A7. Morley Fund Management: Position Paper on Health and Safety**

**"Society as a whole pays when things go wrong. We estimate that the total cost to society of health and safety failures could be as high as £18 billion every year. We can and should do something about this."**

**John Prescott UK Deputy Prime Minister 2000**

For most people health and safety are paramount requirements to an enjoyable and productive life. At a domestic, national and international level, social and economic stability is seriously jeopardised by ill health, exposure to danger or poor security. Maintaining a healthy and safe environment is a vital principle of operation for any community that wishes to be successful in the long term. This includes households, countries and organisations. Within the workplace, according to international law, responsibility for health and safety rests with the employer. These responsibilities include identifying hazards and assessing risks, assessing the effects of work on employee health, implementing health and safety policies, introducing risk control measures, and providing adequate training

Different types of industries face different levels of exposure to health and safety hazards. High-risk industries such as mining and extraction or utilities have traditionally been more aware of the need for rigorous health and safety practice. However as the world of work changes new issues emerge. Low risk industries such as finance the media or IT software need to consider new impacts such as rising incidences of stress, damage to eyes or repetitive strain injuries. Risk assessment must extend to health and safety standards of products and effects to customers. Introducing new products and new technology also raise new issues such the potential health impacts of mobile phones. In the US the National Institute for Occupational Health and Safety calculates that approximately \$171 billion is lost annually in direct and indirect costs of occupational injuries and illnesses compared to \$170.7 billion for cancer. The UK government estimates that work-related accidents and illness cost 2.1-2.6 per cent of gross domestic product each year – equivalent to between £14.5 billion and £18.1 billion. Such losses contribute to measures within company law to enforce greater controls for risk management systems across all industry sectors.

Employees are likely to have the best knowledge of where the challenges lie. It is now widely understood that that to deliver health and safety in the workplace, the workforce must be involved. This means effective representation of the workforce in decisions relating to the safety regime. Avoidable accidents trigger unforeseen costs and delay. The benefit from improved productivity with the improvement of health and safety management systems means it is best practice to seek to extend those systems through the supply chain. As the modern organisation increasingly understands the resources it can enjoy from a diverse workforce, it is important to ensure that health and safety regulations are not used to discriminate against certain employee groups such as women or the disabled.

Raising workplace standards will promote better public health and contribute to maintain stable levels of economic growth and employment. Controlling harmful substances in the workplace will help to protect the environment.

### **Bitter pill or better practice? The business impact of health and safety**

Protecting, or enhancing, employee health and safety is good business sense. It improves employee welfare, ensures that companies comply with their legal duties and so avoids costly consequences such as lost working hours or legal action. Most health and safety failures are due to poor management and ignorance of good practice, rather than direct malicious intent. Staff who have been offered thorough training are more likely to avoid accidents and will also feel valued more highly. This contributes to higher morale and retention.

Legal action against companies can be financially damaging both for both the company and the insurance industry. Greater public access to information about corporate health and safety practice has also contributed to calls for tougher legal accountability. In the UK for example, following a series of train disasters has fueled the debate on the offence of 'corporate killing'.

In cases where management arrangements have failed to ensure the health and safety of workers or the public, a death would be regarded as having been caused by the conduct of the corporation. Directors and managers can also be prosecuted if an offence is committed with their consent or connivance, or is attributable to neglect on their part. Companies seeking long-term sustainability will clearly recognize the financial implication of health and safety risks and the gains to be made from the improvement of employee welfare and the natural environment. The benefits of effective health and safety management include:

- Strong corporate reputation and brand image
- Reduction in illness, injuries or fatalities
- Increased well being and productivity of employees
- Improved employee recruitment, retention and motivation
- Strengthened relationships with business partners, sub-contractors and suppliers
- More secure licence to operate
- Improved risk assessment and management
- Reduced risk of consumer protest, boycotts, adverse publicity
- Reduced security risks and associated costs – reduced material losses, lower insurance premiums, reduced security forces
- Minimization of use of hazardous substances and production of hazardous waste
- Avoiding costly compensation or litigation
- Strengthened shareholder confidence

### **What should a responsible company be doing? Indicators of best practice:**

Managing corporate risk is a key issue for all organisations. Health and Safety risks take many forms. Companies need to have systems in place to manage them. These systems should extend to employees, contractors, customers and members of the public or communities who may be affected by the company's activities. Key areas that we ask companies to commit to include the following:

- Adopting and communicating a Health and Safety policy that conforms to international best practice standards such as the UK Health and Safety Commission or US National Institute of Occupational Health and Safety
- Board level responsibility for monitoring how the policy is implemented
- Monitoring and reporting on how the policy is implemented
- Publishing an annual health and safety report covering all geographic areas of operation  
As a minimum disclosure should include:
  - the broad context of policy on health and safety;
  - the significant risks faced by employees and others and the strategies and systems in place to control them
  - health and safety goals. These should relate to written statement of health and safety policy (and the arrangements for carrying the policy into effect)
  - progress towards achieving health and safety goals in the reporting period, health and safety plans for the forthcoming period
  - arrangements for consulting employees and involving safety representatives
  - data on health and safety performance including:
    - number of injuries, illnesses and dangerous occurrences. This data should distinguish between fatalities, other injuries, illnesses and dangerous occurrences.
    - details of the circumstances of any fatalities, and of the actions taken to prevent any recurrence;
    - the number of other cases of physical and mental illness, disability or other health problems that are caused or made worse by someone's work first reported during the period
    - the total number of employee days lost by the company due to all causes of physical and mental illness including injuries, disability or other

- health problems. Identify number of days thought to be caused or made worse by someone's work and a statement of the main causes of absence;
  - the number of health and safety enforcement notices served on the company and information on what the notices required the company to do;
  - the number and nature of convictions for health and safety offences sustained by the company, their outcome in terms of penalty and costs, and what has been done to prevent a recurrence;
  - the total cost to company of the occupational injuries and illnesses suffered by your staff in the reporting period
- Disclosure of data showing how fines and convictions compare with industry sector over three year period
  - Disclosure of data showing repeat convictions over three year period in any one part of company
  - Disclosure of information on the outcome of health and safety audits, and on the extent and effectiveness of health and safety training provided to staff
  - Disclosure of investment per worker in illness and injury prevention
  - Systems in place to measure health and safety performance including both active and reactive monitoring.
  - Precautions in place to prevent harm, for example systematic inspection of premises, plant and equipment to ensure the continued operation of workplace precautions and compliance with safe working procedures, disclosure on effectiveness of these systems
  - Environmental monitoring and health surveillance that check the effectiveness of health control measures and detect the early signs of harm to health
  - Reporting on social impact and performance
  - Supply chain engagement
  - Provision of ergonomic office furniture and operational equipment
  - Provision of health and fitness facilities in the work place
  - Offering comprehensive employee health and safety education and training at all levels
  - Compliance with all international regulations
  - Membership or uptake of best practice organisations or standards
  - Awards won recognising achievements in health and safety performance

Industries involved in making and using chemicals are in an increasingly vulnerable position. Thousands of man-made chemicals have been released into the environment in vast quantities since the boom of the chemical industry in the 1950s. This has brought many, often unforeseeable, problems for the environment and health risks to animal and human life. Many of the risks and consequences are still not well understood. Responsible companies, in both retail and manufacturing sector, should be taking active steps to reduce the use of toxins that present the potentially greatest risks. These include ozone depleting chemicals, because of their contribution to climate change, endocrine disrupting chemicals, persistent organic chemicals, and PVC. An ability to deal rapidly with developments in science, the increase in public awareness and requirements for protection is needed to avoid damage to corporate reputations and brands. Indicators of responsible practice of companies involved in the manufacture or production of products using chemicals include:

### The chemical industry

- Review and report on all chemicals produced
- Ensure full hazards of chemicals are known and what chemicals are used for
- Move away from more hazardous chemicals in favour of low or minimal hazard chemicals
- Phase out persistent organic pollutants and endocrine disrupting chemicals
- Set a deadline by which all chemicals on the market must have safety independently assessed. All uses of a chemical should be approved and should be demonstrated to be safe beyond reasonable doubt.
- Phase out use of all ozone depleting substances
- Commit to stop all releases to the environment of hazardous substances by 2020

The consumer product and retail industry

- Increase awareness of chemicals used in products
- Be open about what chemicals are used in products
- Ensure that the safest possible chemicals or techniques are used
- Engage with suppliers to ensure that they are taking a precautionary approach with the use of chemicals in the products they sell.
- All companies should produce an environmental report and implement and monitor an environmental policy.

**Further help and information:**

The following are useful resources on Health and Safety:

International Labour Organisation [www.ilo.org](http://www.ilo.org)

The Organisation for Economically developing countries -

<http://www.oecd.org/daf/governance/principles>

UK Health and Safety Commission - <http://www.hse.gov.uk>

Safety now - <http://www.saftey-now.uk>

US National Institute of Occupational Health and Safety - <http://www.cdc.gov/noish>

Occupational Health and Safety Administration US dept of Labour - <http://www.osha.gov>

The following are useful resources on Toxins:

Friends of the Earth -

[http://www.foe.co.uk/resource/consultation\\_responses/sustainable\\_production\\_chemicals\\_foe.pdf](http://www.foe.co.uk/resource/consultation_responses/sustainable_production_chemicals_foe.pdf)

[www.foe.co.uk/campaigns/industry\\_and\\_pollution/factorywatch](http://www.foe.co.uk/campaigns/industry_and_pollution/factorywatch)

[http://www.foe.co.uk/resource/reports/crisis\\_chemicals.pdf](http://www.foe.co.uk/resource/reports/crisis_chemicals.pdf)

Greenpeace - <http://www.greenpeace.org/~toxics>

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## A8. About Claros

Claros is an independent consulting practice specialising in sustainable and responsible investment. Claros provides range of advice for fund managers, pension funds, policymakers and NGOs. Much research focuses on understanding the financial potential of sustainable development generally or of specific social and environment issues. This includes developing research methodology, sourcing information and indicators, developing engagement approaches, considering investment strategies and understanding the portfolio implications of SRI.

Recent clients include: Morley Fund Management / Norwich Union; Universities Superannuation Scheme; Storebrand Principle Funds and Nottinghamshire County Council Superannuation Fund.

A major project was the production of the book “Socially Responsible Investment: a guide for pension funds and institutional investors”, published in 2000 by Monitor Press. This authoritative guide, the first on the subject for institutional investors, covers pension law and SRI, a detailed analysis of the various themes and issues in SRI, analysis of the various approaches to SRI, such as engagement and active selection, case studies and guidance on policy development and implementation.

Claros also conducts specialist research into key issues, such as climate change and employment practice, or sectors such as oil & gas, utilities and forestry, with a particular emphasis on understanding the financial impacts and consequences of social and environmental issues. Last year, Mark Mansley authored a research paper on long term investment and climate change, highlighting it as a risk management challenge for institutions and recommending 10 action points

Claros is also familiar with the retail SRI market, especially in terms of marketing and product development, and has worked with other organisations interested in SRI, such as Policymakers and NGOs. Claros has an active interest in venture capital and alternative investments, particularly those with social or environmental emphasis.

Claros is an active participant in the broader debate on socially responsible investment as well as general investment. It is a member of the UK Social Investment Forum, and has also contributed to several initiatives, e.g. the Myners Review. Mark Mansley has acted as a Lead Author (on financial issues) on the Special Report on Technology Transfer being prepared by the Intergovernmental Panel on Climate Change (IPCC).

Claros Consulting is lead by Mark Mansley. After graduating in mathematics from Cambridge University he worked for over eight years in financial research at ANZ Merchant Bank, Schroders and Chase Manhattan (where he was chief analyst of their bond research and a director of Chase Investment Bank). In 1993 he decided to pursue a career in socially responsible investment, joining the specialist consultancy Delphi International (and a director from 1996 to 1998). He founded Claros in 1999. He is also a non-executive director of the Pennine Downing Ethical VCT plc and member of their ethical committee. He is a frequent and respected speaker on socially responsible investment.

**Publications and Reports**

(by Claros or Mark Mansley)

Climate Change – A risk management Challenge for Institutional Investors, *with Andrew Dlugolecki, USS, 2001*

The Campaigners Guide to Financial Markets – Effective Lobbying of Companies and Financial Markets; *with Nicholas Hildyard, The Cornerhouse, 2001*

Socially Responsible Investment: A Guide for Pension Funds and Institutional Investors; *Monitor Press, 2000*

Methodological and Technological issues In Technology Transfer (chapter 5 - Finance); *Intergovernmental Panel on Climate Change, 2000*

The Role of Financial Institutions in Achieving Sustainable Development; *Delphi for the European Commission DGXI, 1997.*

Foreign Portfolio Investment and Sustainable Development: A Study of the Forest Products Sector in Emerging Markets, Grieg-Gran M, Westbrook T, Mansley M, Bass S, Robins N, *IIED Forestry and Land Use, 1999/01*

Going International: a Guide to Finance for Renewable Energy Companies; *ETSU/DTI, 1997.*

Bakun: High Dam - High Risk; *Delphi International, 1996.*

A Financial Analyst's Perspective in 'Climate Change and the Financial Sector', *Verlag 1996.*

The Long Term Financial Risks to the Carbon Fuel Industry from Climate Change; *Delphi 1994.*

Sustainability without short termism; in *Environment Strategy Europe 1997.*

Achieving sustainable forestry - the role of the capital markets, *OFI 1996.*

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