

BLINDED BY NUMBERS



If you're a board director who relies solely on the preferred safety metrics of ESG rating agencies, writes **SEAN BRADY**, you could be blind to your fatal and catastrophic risks.

On 20 April 2010, while BP executives were on board celebrating its impressive safety record, the Deepwater Horizon oil rig had a blowout. Eleven people died and the incident resulted in one of the Gulf of Mexico's worst environmental disasters.

How did the rig go from exemplary safety performance to catastrophic failure?

The answer is, of course, it didn't: its safety performance was illusory – an illusion made possible by BP's intense focus on the management of personal safety.

Disasters like these are a salient reminder that many of the typical safety metrics board directors rely upon to deem their organisation 'safe' do not provide a comprehensive picture of risk.

This problem will only get worse because these same metrics, typically the Total Recordable Injury Frequency Rate (TRIFR) and the Lost Time Injury Frequency Rate (LTIFR), have been embraced by ESG rating agencies.

FLAWS WITH TRIFR

As their names suggest, these metrics typically count the number of people injured and divide this by the number of hours worked to get a rate. At

a superficial level the rating agencies' selection of these metrics appears reasonable: if an organisation records fewer injuries, surely it is 'safer' than an organisation that records a higher number of injuries?

But this is not the case.

These metrics have a multitude of known issues, the most serious being that they provide very little insight into how effectively an organisation is managing its fatal and catastrophic risk. This is because the causes and management of these risks are significantly different to the causes and management of the risks typically captured in personal safety metrics like the TRIFR and LTIFR.

For example, it would be ridiculous for an airline company to believe they are managing the risk of a plane crash by focusing on reducing the number of slips, trips and falls recorded by their baggage handlers.

But this was the approach to safety on Deepwater Horizon. And it's evident in many other catastrophic incidents, such as the 2010 explosion that killed 29 miners at Pike River coal mine. In that case, the directors received information on injuries, but no information on the almost daily methane gas exceedances that ultimately blew up the mine.

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BROADER MEASURES NEEDED

As we push further into an era where securing access to finance will be driven by ESG metrics, there is a real danger that an organisation's already myopic focus on these flawed metrics will be legitimised by rating agencies. This will likely reinforce an organisation's incorrect assumption that a satisfactory personal injury rate also means fatal and significant risks are being well managed.

While a focus on the metrics relating to securing finance is obviously important, it is critical for organisations to also develop and focus on safety metrics that provide information about their more significant risks.

What should these additional metrics be?

It would be disingenuous to suggest a silver bullet

exists – the right metrics will vary depending on the specific hazards an operation is managing, as well as its level of safety maturity. What is key, however, is the importance of collecting information on how an organisation's most significant hazards are being *controlled*, and then to develop metrics that provide information on the effectiveness of these *controls*.

Managing the personal safety of employees is important, of course, but personal safety metrics only tell part of the story about how well an organisation is managing its safety risk.

Ultimately, the purpose of a good set of metrics shouldn't be to *answer* questions, but to provoke directors to *ask* the right questions. The metrics currently used simply don't do this.

Queensland-based SEAN BRADY is a forensic engineer and managing director of consultancy Brady Heywood.