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Stakeholder influence on health and safety controls

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Abstract: Using the levers of control model, this paper investigates how primary stakeholders influence the introduction of organizational health and safety strategies while improving organizational management control systems. These pressures to embed interactive mode of controls help management to create a dialogue with the employees, which in turn can change the diagnostic controls, boundary systems and belief systems.

INTRODUCTION

Lapses in health and safety could cause serious economic, social and legal problems for organizations. Having understood the importance of health and safety for corporate sustainable development, organizations adopt various strategies to improve safety at work. The successful adoption of health and safety strategies requires the commitment of management including shareholders. Despite the importance of the influence of various stakeholders in propelling organizations to adopt safety strategies, there is a dearth of studies that identify the contribution/influence of primary stakeholders in establishing safety as a part of organizational Management Control Systems (MCS). This paper investigates how primary stakeholders of organizations influence the MCS of an organization through the introduction of organizational health and safety strategies.

LITERATURE REVIEW

Among the various dimensions of safety-related studies, accident causation and mitigation has received widespread attention with the famous domino theory of Heinrich [1]. Many researchers opine that the vast majority of accidents are caused by unsafe work behaviours or human errors [2] [3]. These early studies and developments provided a platform for the emergence of a more systematic approach to occupational health and safety in the workplace. Subsequent studies have used management tools such as balanced scorecard and quality function deployment to construct safety management frameworks [4].

Another strand of research that has received the attention of many scholars is safety culture. Organizational safety culture is defined as “the set of beliefs, norms, attitudes, roles and social and technical practices which are concerned with minimizing the exposure of individuals, within and beyond an organization, to conditions considered dangerous or injurious” [5]. Even under safety culture, the adoption of the balanced scorecard to translate the organization’s safety policy into a clear set of goals has been suggested [6]. In a broader sense, health and safety strategies that foster a safety culture can be considered an important element of MCS. The next section presents the theoretical model based on MCS.

THEORETICAL MODEL

MCS are essentially a means to successfully implement strategies. They are the formal information-based routines and procedures used to maintain or alter patterns in organizational activities. MCS of an organization are influenced by many stakeholders, especially by the primary stakeholders, who include shareholders, investors, employees, customers, and suppliers [7]. Though MCS are significantly influenced by primary stakeholders, their influence on MCS has not been adequately studied.

The “levers of control” model is a widely used model in MCS [8]. We use this model as the theoretical model in our study to analyse the influence of primary stakeholders on the health and safety strategies. In this model four distinct control levers are identified as belief system, boundary system, diagnostic control system and interactive control system [8]. Belief systems encompass the company’s values, mission and other statements of philosophy. When managers “walk the talk” and exemplify appropriate behaviour, there is a powerful lever of control over employee actions. Boundary systems are based on the power of negative thinking that specifies what employees should not do.

Diagnostic control systems are the traditional monitors of critical performance outcomes such as costs and revenue. Diagnostic systems help managers to track the progress towards strategically important goals. However, in order to face the challenges of today's dynamic environment new formal control systems need to be created to harness creativity, which is not facilitated through diagnostic systems. Interactive controls are the formal information systems that managers use to involve themselves regularly and personally in the decisions of subordinates. Through them, senior managers participate in the decisions of subordinates and focus organizational attention and learning on key strategic issues. It is argued that the most important fact is not identifying the types of controls firms use but rather how managers use them. Even though the "levers of controls" have been widely studied in measuring the accounting and finance related measures and performances [9], there is a dearth of studies relating its application to health and safety strategies which are a part of an organization's MCS.

METHODS

We selected the case study approach in this study as it provides an in-depth understanding of complex social phenomena [10]. Since our main focus was on a social parameter (i.e., health and safety), which is basically company-specific, the relevant data was not available in public sources. Therefore we had to use a variety of data collection methods such as semi-structured interviews, review of archival data and on-site assessments. The use of multiple sources of evidence enabled verification through triangulation, which is a strength of case research [11].

A well-known mining company (hereafter referred as "MN") in Sri Lanka, which is listed in the country's main stock exchange, was selected as the unit of analysis in this study. The main reason for selecting this company was both the importance of the company performance in the mining sector and the accessibility to rich health and safety and MCS information.

THE MINING COMPANY

MN is the world's only vein graphite producer and has been exporting products to countries all over the world for more than a hundred years. Having operated as a private entity for well over hundred years, the company was nationalized in 1970. Under a programme to privatise government owned institutions, in 2000 MN was privatized and its control went to a specialist-mining firm in Germany. In 2008, 80% of the parent German company's shares were acquired by a global mining company incorporated in the Netherlands. During the year 2014, MN recorded a turnover of LKR 607 million (approximately US\$ 4.7 million) with its 188 employees.

In 2008, after the acquisition, the Netherlands-based parent insisted on establishing and maintaining formal and systematic health and safety strategies for MN. This led to radical organizational changes related to health and safety. Among them, the establishment of a separate safety department, awareness and training, and continuous adoption of a new safety reporting policy are important. Therefore, year 2008 was an important milestone in MN's operations relating to health and safety. In this study we identified MN's health and safety-strategies in two periods, i.e., pre-2008 and post-2008, when applying the four levers of control.

FINDINGS & DISCUSSION

In the pre-2008 era, MN didn't have a formal Safety, Health and Environment (SHE) policy. Mainly due to the company's long accident-prone history, the employees believed that it was their destiny to suffer injuries (or even death) in the mine in their belief system. The employees were not aware of and even never wanted to have health and safety measures that could save lives and minimize work injuries. After 2008, subsequent to the introduction of the new SHE policy, MN was forced to follow health and safety measures rigorously. As a result, the employees realized the benefits of the SHE policy and their attitudes changed. Since health and safety have now become a part of their belief system, the employees value and they themselves follow the health and safety measures adopted by the company [5].

In the pre-2008 era, in terms of the boundary system of MN, there were few rules and regulations in place for health and safety. In the absence of these internal policies or rules, MN only complied with the legal requirements enforced by the government. Government legislation necessitated compliance with only basic and minimum health and safety standards. Consequently, the number of accidents reported was high in MN. However, after the change in the parent company, in the post-2008 era, MN had to introduce new internal rules and regulations for health and safety through its SHE policy. As a result of the adoption of the SHE policy, the number of accidents dropped significantly and it resulted in an unexpected improvement in productivity as well [5].

In the pre-2008 era of MN, in terms of the diagnostic system of MCS, the performance evaluation system focused only on monetary benefits, such as provision of bonuses when employees meet the given targets [4] [8]. MN had employed a monitoring system that focused on mining output. In order to achieve the given targets and to qualify for the monetary benefits (bonuses), the employees worked recklessly, sometimes even risking their own lives in the mine. MN neither evaluated its existing MCS nor held any discussion with mineworkers regarding the performance evaluation system despite the alarming number of accidents experienced. In the post-2008 era, the new parent company of MN recognised the health and safety issues arising from the financially biased performance evaluation system and its consequent cost in terms of accidents and injury. To overcome these issues, the parent company insisted on MN transforming its monitoring system and reviewing its target setting process and performance evaluation system. These changes that MN initiated later resulted in a better safety environment, productivity and economic performance.

In the pre-2008 era, MN hardly exercised an interactive control mechanism. The company employed mainly a diagnostic approach to monitoring and did not solicit subordinates' comments or their suggestions regarding the health and safety controlling system. However, after the change in the parent company, in the

post- 2008 era, the new parents company's emphasis on introducing new MCS relating to health and safety demanded an interactive method of control. MN had to seek the involvement of all subordinates from top to bottom and obtain their suggestions for health and safety improvements. The management of MN started fostering a close relationship with the employees especially with the miners through constant dialogue. The views of the miners are now considered in the daily decision making process. Apart from the new safety policy (SHE), the new training policies and new performance evaluation system are interactive in nature. Consequently, MN's safety indicators, financial performance, productivity and employee satisfaction were on the rise. Further, owing to the new mode of interactive operations, MN was able to change the employees' beliefs about health and safety when working in a mine. The change in their core values is such that now, the health and safety procedures have become a part of the DNA of the MN's employees.

CONCLUSION

The above discussion suggests that the pressures generated from the primary stakeholder (i.e. parent company) create, in turn, pressures on management to adopt health and safety strategies in an organization. These pressures to embed interactive mode of controls help management to create a dialogue with the employees, which in turn can change the diagnostic controls, boundary systems and belief systems. These broad changes in MCS can lead to better health and safety standards, a contented work force and improved economic performance. The findings reveal the importance of safety controls in developing a sound safety climate in an organization. They further reveal the importance of an interactive, diagnostic and boundary system of controls in developing, adopting and sustaining different organizational strategies such as health and safety strategies.

The findings of this study may be limited due to several reasons. The qualitative case study method followed in the study poses the limitations of generalizability of the findings. The results will therefore only be able to

theoretically generalize in a contextual way. Thus, we consider the findings to be particularly relevant for accident-prone industries such as mining. In future studies, these findings can be further explored by way of multiple case studies or surveys covering accident-prone organizations of different sizes and contexts.

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