Viewpoint

Corporate leadership beyond the gates

Extending governance of safety risk to off-site transportation

The corporate leadership agenda has become busier over the last decade as the world's largest firms come under increasing scrutiny from a broader range of stakeholders. Beyond legal obligations, risks and opportunities for corporate reputation arise from matters such as carbon, water and community engagement. Many companies also engage in extensive road transportation, much of which comprises operations contracted out along the supply chain. With more than one-quarter of the 1.25 million deaths on the road each year attributable to work-related driving, the threat posed to sustainable business performance due to confining safety risk management to on-site activities is clear. As defensive driver training and driver-monitoring technologies become more mainstream, leading global companies are now taking the significant step of managing all off-site transportation safety risks throughout their own operations and across their supply chains. While such a step may increase the scope of harm to be addressed by an order of magnitude over that of on-site risks, reducing road transport-related fatalities and injuries throughout the supply chain can strengthen corporate reputation and deliver tangible benefits to business performance.

Road safety and corporate reputation

Companies have increased safety risk management efforts over the last few decades and significantly reduced harm to staff, contractors, customers and members of the public. However, most companies continue to limit safety risk management to on-site activities. Management of off-site safety risks for both owned operations and across the supply chain is typically weak; many companies do not systematically record or report off-site incidents.

Specifically, with respect to road safety, only a few leading global companies consider the issue a priority, despite 36% of all occupation-related deaths occurring on the road, outside of plant gates. Even fewer truly understand the safety risk profile across their supply chains. While legal obligations for managing safety vary globally and, in many cases, fall to the supply-chain players themselves, ever-increasing scrutiny exposes corporate reputation.

The game is changing

Road safety is rapidly joining the corporate leadership agenda. Leading companies are now launching group-wide programs to manage road-safety risks in distribution, in particular global companies operating in low- and middle-income countries with less than half of the world's vehicles but 90% of fatal accidents. Our analysis of external reporting by 85 of the world's largest companies across seven sectors notes that just one-third declare the matter to be a priority (Figure 1), and shows considerable variation in prioritizing supply-chain safety by sector (Figure 2).

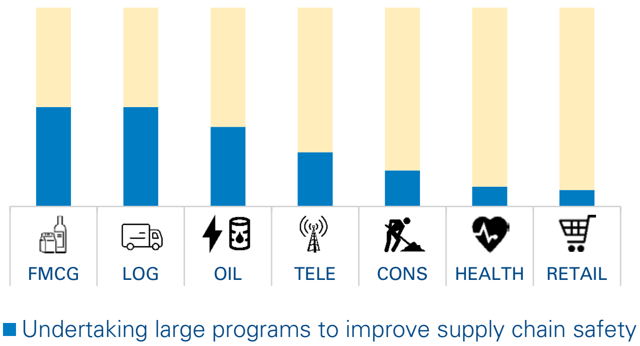
Figure 1. Priority of road safety in external reporting by companies across seven sectors

Source: Arthur D. Little analysis

"We are not just limiting our focus to our own facilities; our aim is to reduce and, where possible, eliminate all risks of harm to our employees, contractors, visitors, customers and any other stakeholders affected by our business."

Group CEO, FTSE-20 Company

Figure 2. Engagement with supply-chain safety by sector



Source: 85 companies analyzed, Arthur D. Little

The highly visible campaigns of leading companies are throwing the spotlight onto those that are not proactive. Leading companies recognize that engaging in such emerging practices enhances their reputation in corporate leadership.

Such campaigns have been fueled by rapidly developing technologies such as vehicle telematics and on-board driver-monitoring cameras, enabling low-cost and effective support to safety management of fleets.

"As corporate leaders, we can't brush this issue under the carpet…"

Managing Director, FMCG Africa

Financial benefits

Many road-safety initiatives support good business performance and deliver a range of benefits, for example:

1. **Cost savings.** Stelios Haji-Ioannou, Founder & owner of EasyJet, once said, "If you think safety is expensive, try having an accident…" Direct costs typically involve vehicles (recovery, repairs, insurance premiums) and drivers (injury and absence, replacement drivers, compensation). Further indirect costs are typically much more extensive and not fully covered by insurance (downtime, loss of production, damaged reputation, loss of goodwill and management burden) – and often forgotten when reviewing the incident. ROIs of fitting driver-monitoring technologies to fleet vehicles are typically measured in months.
2. **Competitive edge.** Improved governance of safety risk results in building highly reliable supply-chain networks, whether transport services are owned or outsourced, in which products are more likely to reach their customers on time.

Current practices

The world's largest companies are introducing a broad range of initiatives to reduce the number of road accidents (Figure 3):

Figure 3. Road-safety practices currently in use

Source: Arthur D. Little analysis

Defensive driver training and driver-monitoring technologies are becoming more mainstream. Such initiatives present cost-effective opportunities and are rapidly being considered as part of "taking reasonable steps" to manage all off-site transportation safety risks throughout the supply chain.

Getting under way

Our recent experience of working with leading companies has highlighted three key elements:

- Acknowledging key challenges
- Understanding the big picture
- Launching well-targeted strategic programs

Key challenges

Unlike the management of on-site safety risks, companies have no direct ability to control the actions of third parties on public roads. For companies with extensive road-transport footprints in low-income countries, this is particularly relevant as poor transport infrastructure, together with often weak road-safety law enforcement and larger numbers of pedestrians and bicycles, lead to dangerous road conditions. The third-party death rate in such countries is significantly higher than in the developed world.

Clearly, it is impossible to completely remove the risk of an incident or fatality on the road. Organizations should adopt a "take-all-reasonable-steps" approach to determine which initiatives they should use to reduce the fatality/incident rate – steps tailored to the opportunities for control or influence of employees, contractors and third-party communities. A recent African client of Arthur D. Little recently took a new approach to reduce its incident rate by developing a dynamic distribution route model to avoid high pedestrian risk area near schools and churches. Safer routes are now selected based on the time of the day to avoid peak periods.

Understanding the big picture

A critical enabler to improving road safety is to understand the specific local risk profile by consistently collecting and reporting data on fatalities/incidents. Many organizations do not record (or report) off-site incidents at corporate level, which makes such matters invisible to their boards, and hence not a corporate priority. In our experience, a critical success factor is to equip the organization with effective safety governance mechanisms. These allow identification of the low-hanging fruit and opportunities to take those reasonable steps. Another recent Arthur D. Little client determined that pedestrians comprised around half of road-related fatalities in one of the low-income countries where its distribution operations ran. Fitting of side-impact protection to fleet trailers provided a cost-effective risk mitigation – a measure that is rarely beneficial elsewhere.

Launching well-targeted strategic programs

Safe-driving initiatives need to be led from the top. Cost-effective and sustained success requires tackling the underlying causes of current accidents and alignment of driver programs with broader company culture – targeting the directly controlled workforce as well as contractual/supplier relationships. Initiatives need to be systematic and embrace driver selection, behavior, development and monitoring, best use of new technologies to equip vehicles, and assessment of driving routes.

To get traction with subcontracted distribution services, contracts will often need to be revised to specifically require reporting and classification of accidents as part of supply-chain obligations.

We note three elements which are critical for success but often overlooked:

- **A large-scale corporate program does not necessarily imply a uniform turnkey solution.** Local evaluation of driving culture, the driving environment and underlying causes of accidents is required to develop smart and effective investments rather than a global broad-brush approach. The side-impact protection example, previously noted, illustrates this point.
- **Contracted supply-chain fleets are often left out of the safety equation.** Contracted operations are sometimes perceived as a way to transfer risks, and for many companies, contractors are viewed as beyond their control and primary concern. Development of suitable formal structures for managing supply-chain risks is perceived as one of the biggest challenges. Companies seeking to progress from "contract-driven" supply-chain safety management to "culture driven" do well to nurture long-term relationships with high-performing contractors. A key factor for success lies in effective evaluation, based on suitable metrics, of performance on an ongoing basis.

> As an example, analysis of a global company risk profile revealed that 70%+ of fatal accidents were associated with contracted-out activities. Contract prices and delivery targets formed primary influencers of behaviors, with safety pushed down the list of priorities. A single driver was provided in the vehicle instead of the two specified in the contract for long journeys. Such findings led to a group-wide review of contracting arrangements and on-duty controls, and blacklisting of non-cooperative contractors.

- **Technology should strengthen rather than replace driver management.** Telematic-based black-box and camera technologies are now mainstream and allow real-time monitoring of driver performance. These typically record hard stops, turns, harsh braking, speeding and swift lane-change maneuvers, and can therefore detect unsafe driving practices. Adaptive cruise control and roll stability maintain safe following distances and apply the brakes if a vehicle corners too fast. However, too often we saw during our business reviews a large amount of "guilty" knowledge accumulated by Big (Safety) Data, but not used by the management for action. In Latin America, where the supply chain is comprised of large numbers of small providers, our client mandated fitting of telematics and rights to monitor driving behavior of all drivers, with performance reviewed weekly by management. Effective management programs may also include a scheme with clear rewards/sanctions for the drivers. We have seen healthy day-to-day competition between drivers lead to reduced collision rates.

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A leading transportation company has recently deployed in-cab smart-cameras facing the driver and the road ahead, which transmit a 10 second video recording of a potentially risky event to a team of analysts, to be reviewed and forwarded to driver managers for swift action. Another has found enormous value in fatigue monitoring, in which it was discovered from a program of monitoring that micro-sleeps were common and were not confined to particular demographics such as driver age. The problem is now largely eradicated by deploying smart video monitoring which alerts the driver when the first signs of fatigue are detected.

Executive insight

Road-transport safety has arrived on the corporate leadership agenda and is becoming key to reputation, as other parts of the risk profile are being systematically reduced. Often dominated by contracted-out logistics within the supply chain, this presents a range of challenges beyond those typically encountered on site.

Our recent experience of supporting leading global companies provides important insight. Leading companies are working to extend management of the corporate risk profile to road safety. This is achieved by acknowledging key challenges, understanding the big picture and launching well-targeted strategic programs that consider local challenges and solutions. Such programs include driver management (driver selection, development and monitoring), vehicle management (including best use of new technologies) and assessing and managing route risks.

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Arthur D. Little

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