

Injuring Workers Hurts Share Prices



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Paul O'Neill became the CEO of Alcoa Inc. in 1987. He remained CEO of Alcoa for the next 12 years, retiring in 1999. Paul O'Neill's tenure at Alcoa is the subject of numerous articles on leadership and includes Harvard Business School case studies.

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The speech was given in a hotel ballroom not far from Wall Street, and it was meant for the investors and analysts who did business just a few blocks away. In the last few years the aluminium manufacturing giant had performed poorly. Investors were nervous, and many had arrived at the hotel expecting the usual grand turnaround vision of how this new leader was going reduce overheads, improve profits and, most importantly to them, raise the stock price.



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But that's not what happened.

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“Every year, numerous Alcoa workers are injured so badly that they miss a day of work,” O'Neill continued. “I intend to make Alcoa the safest company in America. I intend to go for zero injuries.”

When his initial remarks had finished, most of the audience was still stunned and confused. A few veteran investors and business journalists tried to get the meeting back toward a normal CEO-to-Wall Street address. They raised their hands and asked questions about capital ratios and inventory levels. O'Neill wasn't willing to entertain any of it.

“I'm not certain you heard me. If you want to understand how Alcoa is doing, you need to look at our workplace safety figures.”¹

“An investor told author Charles Duhigg he bolted for a phone after hearing O'Neill's declaration. “The board put a crazy hippie in charge and he's going to kill the company,” the investor said he told his clients. “I ordered them to sell their stock immediately before everyone else in the room started calling their clients and telling them the same thing.

It was literally the worst piece of advice I gave in my entire career.”²

Safety at Alcoa changed gradually: changes to culture and process are difficult. Prioritising worker safety meant changes to processes, procedures, communications, attitudes, and data sharing among not just managers but among the shop floor workers. Worker safety became a ‘whole of company’ mantra in an industry that can be inherently dangerous.

When Paul O'Neill retired from Alcoa the market capitalisation of Alcoa had risen from US\$3billion to US\$27billion, with cash flow rising by 500%. Concurrent with such a robust financial performance Alcoa became one of the safest companies in America. During O'Neill's tenure, Alcoa's worker injury rate fell to one-twentieth the US average.³

Footnotes:

1. “How Paul O'Neill Fought For Safety at Alcoa” David Burkus April 2020.

2. “Have We Learned the Alcoa ‘Keystone Habit’ Lesson? Rodd Wagner Forbes Magazine January 2019

3. Rodd Wagner, *ibid*.

At Platypus we sought data to explore the experience of Australian companies regarding worker safety. In Australia, many but not all companies report Total Reportable Injury Frequency Rate (TRIFR) as a measure of injury rates and therefore worker safety. The TRIFR is defined as below:

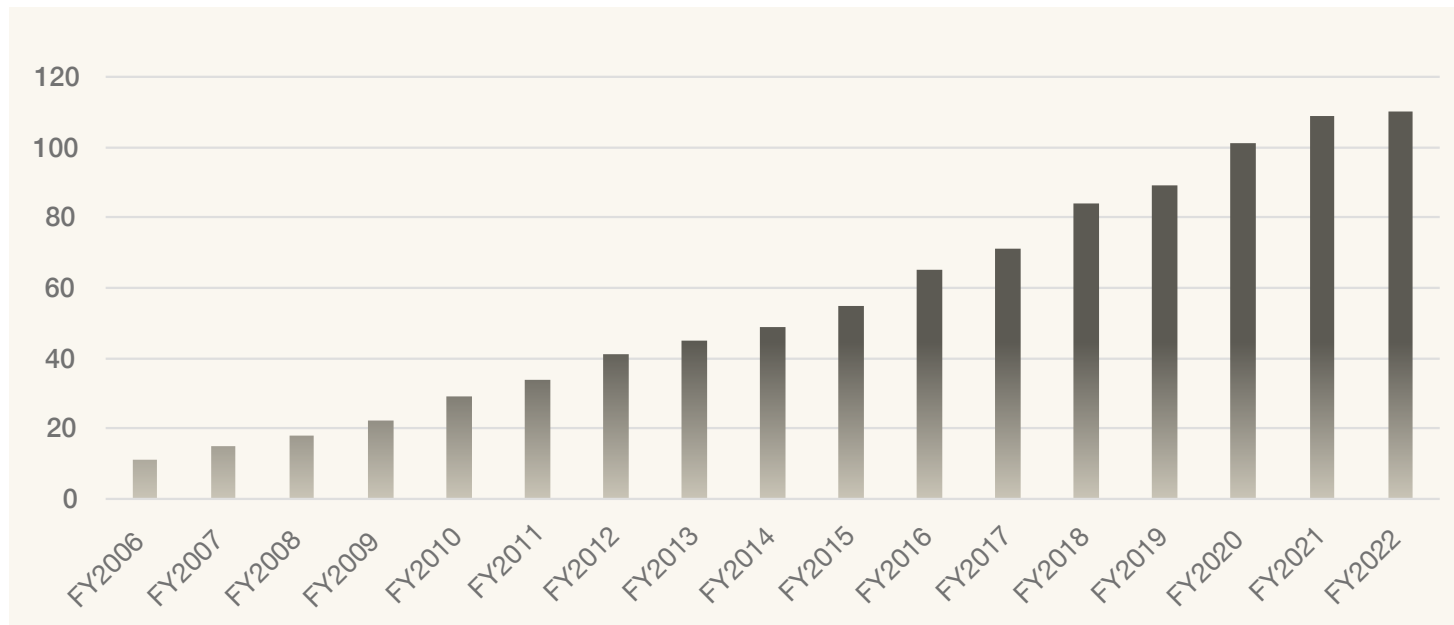
Name	Definition
Total recordable injury (TRI)	<ul style="list-style-type: none"> • The total raw number of Fatalities, Lost Time • Injuries and Medical Treated Injuries & Restricted Work Injuries.
Total Recordable Injury Frequency Rate (TRIFR)	<p>A frequency rate calculated as TRIs per 1,000,000 hours worked:</p> $\frac{(\text{total TRIs} \times 1,000,000)}{(\text{total hours worked})}$

Source: Safe Work Australia

At Platypus our quantitative research team together with our Responsible Investment team has analysed the TRIFR data for insights with respect to stock prices. We have seen an improvement in disclosure over the past decade and a half. While more disclosure is normally a good thing, given the small disclosed TRIFR data in some industries the number becomes less relevant.



Number of companies reporting TRIFR



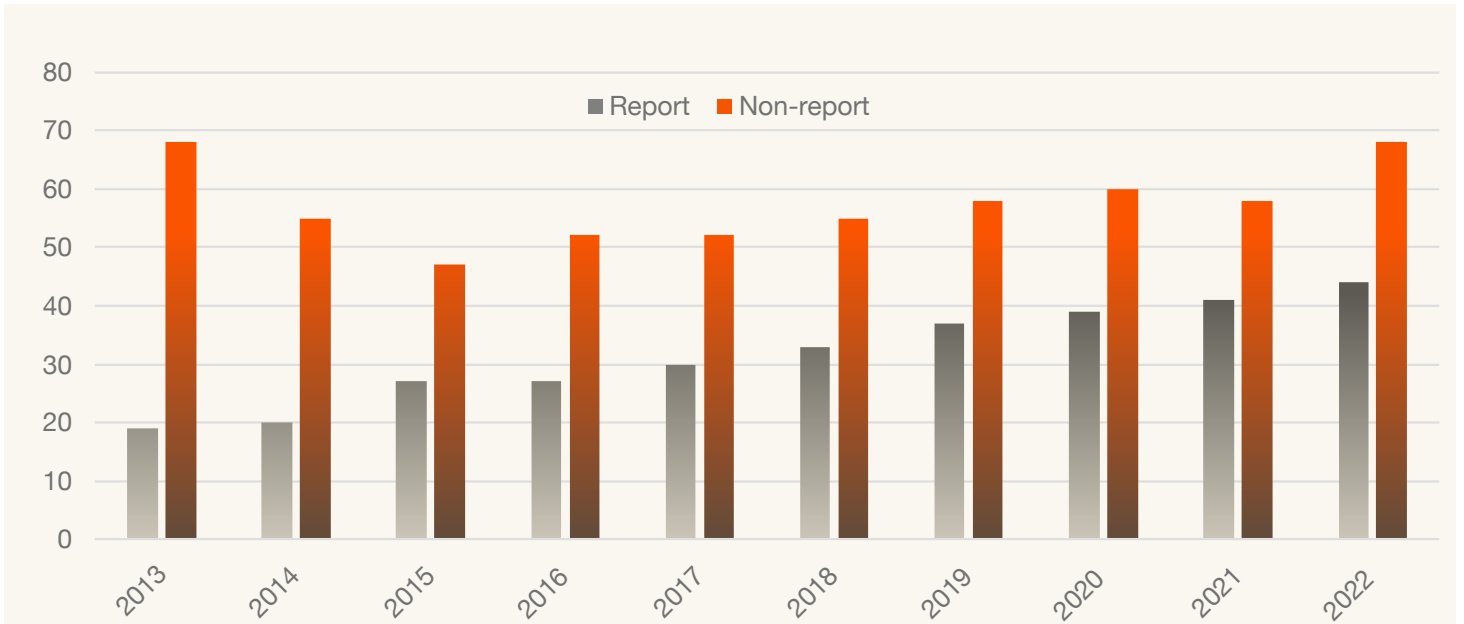
TRIFR reporting by Global Industry Classification Standard (GICS)

Source: Company annual reports, Macquarie Equities

Performance

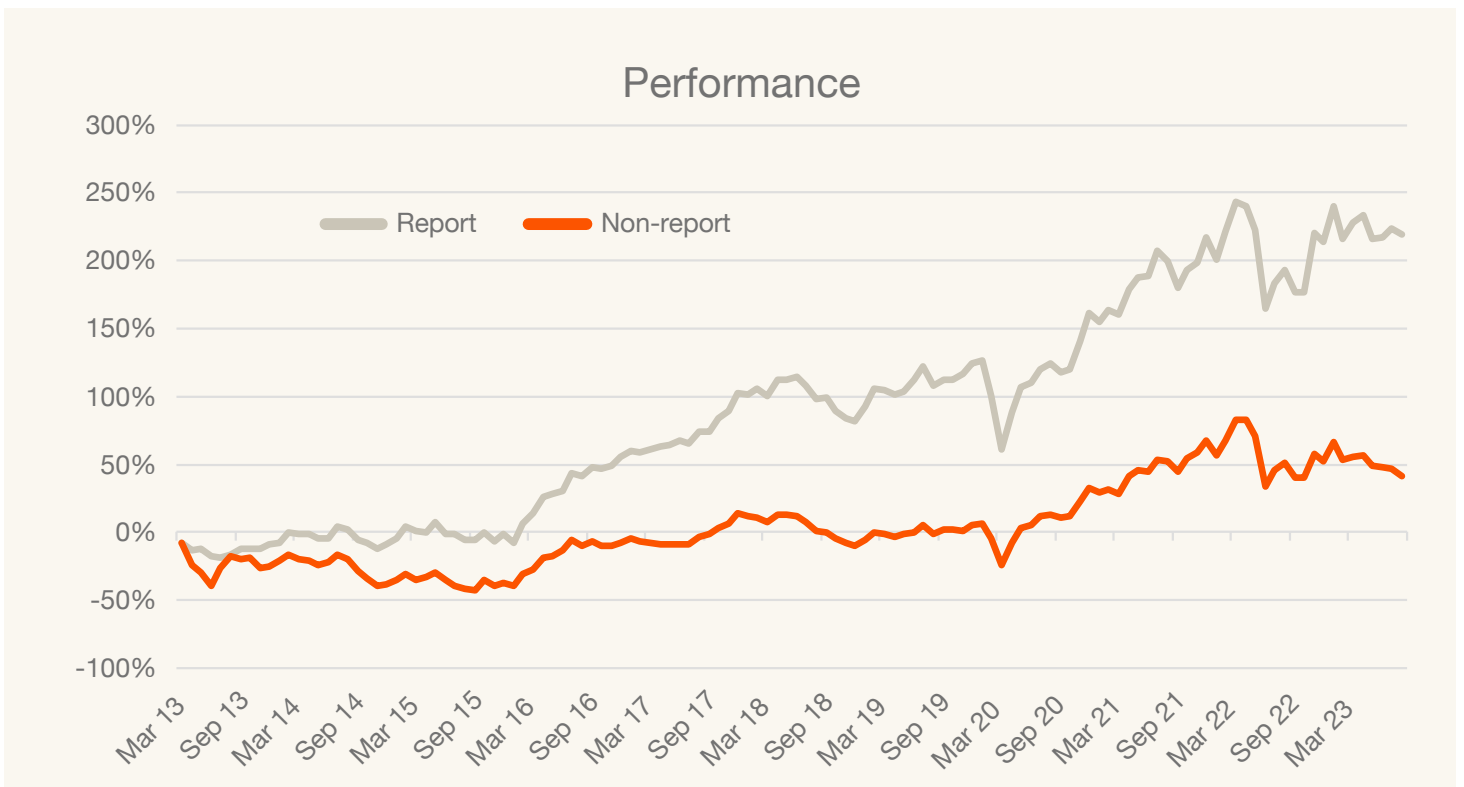
Given the limited size of the total dataset, we focus our quantitative results on the materials GICS sector. Within the materials GICS sector, we split out companies that report TRIFR compared to those that do not.

TRIFR reporting within Materials sector



Source: Company annual reports, Macquarie Equities

Comparison of performance of companies within the Materials sector that report TRIFR compared to those that do not.

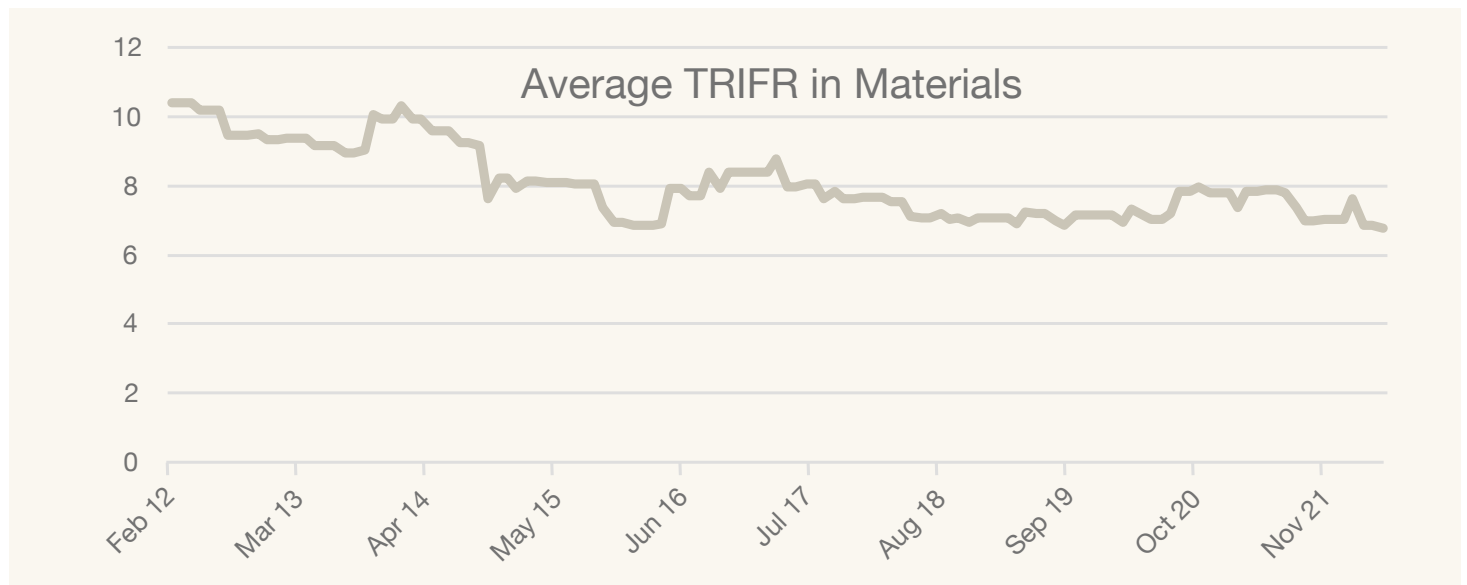
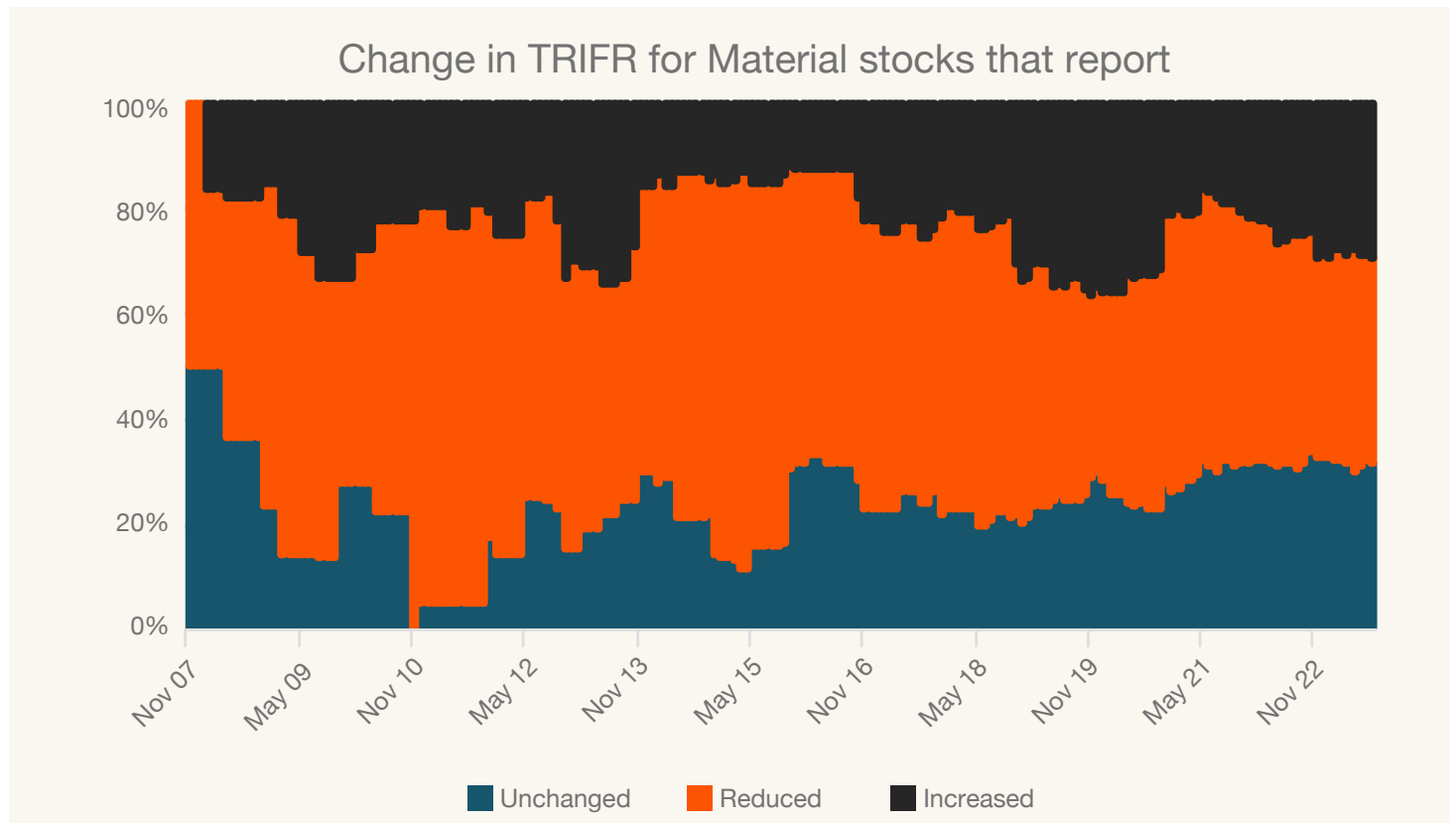


Source: Company annual reports, Macquarie, Platypus

Without considering the impact of other factors, Material stocks that report TRIFR outperform material stocks that do not. We do not make any assumptions regarding why some companies do not report TRIFR data. It would certainly be of interest to Platypus if all companies were required to report this data.

Within the Materials sector, as the number of stocks that report TRIFR has increased, the proportion that has reduced actual TRIFR has remained stable over time.

The proportion of reporting companies within the Materials sector for which TRIFR has changed or not changed, and average Materials TRIFR through time.



Source: Company annual reports, Macquarie, Platypus

Over time, the average Materials sector TRIFR is lower, but the trend is not dramatically lower. Recently, there have been improvements on average, but we are waiting to see the complete

data set for 2023. Single stock examples can highlight TRIFR as an area for company engagement.

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