

Psychosocial Risk and Respect@Work



September 2024

Psychosocial risk and sexual harassment are now firmly within the governance remit of Directors and Boards. This is driven by a rapidly evolving regulatory landscape across health and safety, employment and discrimination, alongside shifting social and legal expectations around employee wellbeing.

This article outlines the key governance issues, the factors contributing to workplace psychosocial risk and sexual harassment, the impacts on business and the role of Directors and Boards in managing these risks.

Key issues

Psychological wellbeing is a safety issue and a priority enterprise risk. Boards and Directors need to be aware of potential organisational hazards and take reasonable steps to verify that resources, systems and procedures to manage psychosocial risk are provided, used and monitored for effectiveness.

Workplace sexual harassment is a psychosocial risk because it causes psychological and physical harm. Employers have a positive duty to prevent workplace sexual harassment and should ensure that an enterprise-wide prevention and response approach is formalised and integrated into existing safety management systems.

Organisations must consult regularly with employees about the decisions that affect their workplace safety and wellbeing.

It is now a regulatory requirement for organisations to have comprehensive frameworks that integrate safety, culture and employee wellbeing, to promote safer and more respectful workplaces. Directors must understand their obligations and act to ensure they are protecting workers and their organisation from these risks and avoiding penalties associated with regulatory non-compliance.

Psychosocial risk and the risk of workplace sexual harassment

Psychosocial risk refers to workplace hazards that have the potential to cause psychological harm (regardless of whether they also cause physical harm). Psychosocial risks may arise from hazards related to the design or management of work, a work environment, the physical workplace or workplace interactions and behaviours. The source of psychosocial hazards is broad however, they primarily arise from or are related to:

1. the design and management of work, including lack of role clarity, unachievable or unreasonable job demands, low job control, poor support or inadequate reward and recognition
2. interactions at work, including harassment, sexual harassment, bullying and conflict and poor workplace relationships
3. the conditions or environment in which work is done, including poor organisational change management, remote or isolated work and poor physical environments
4. lived experiences at work, including poor organisational justice, violent and aggressive behaviours, traumatic events or exposure to harmful material.

Duty of Care

An organisation must take reasonably practicable steps to ensure that workers and other persons are not exposed to risks to their psychological or physical health and safety. An organisation must eliminate psychosocial risks in the workplace or minimise these risks.

Operational risks

Psychosocial risks (including the risk of workplace sexual harassment) cause significant harm to people, including psychological and physical harm. In turn, this leads to an erosion of workplace culture, impacting the organisation's ability to attract and retain talent.



Financial and legal risks

Incidents arising from psychosocial risks negatively impact profitability, labour and operational costs and revenue. Publicly reported incidents impact market value and can result in significant legal and financial penalties on organisations and Directors.

Since 2017-2018, there has been an increase in claims associated with work-related mental health conditions by

36%

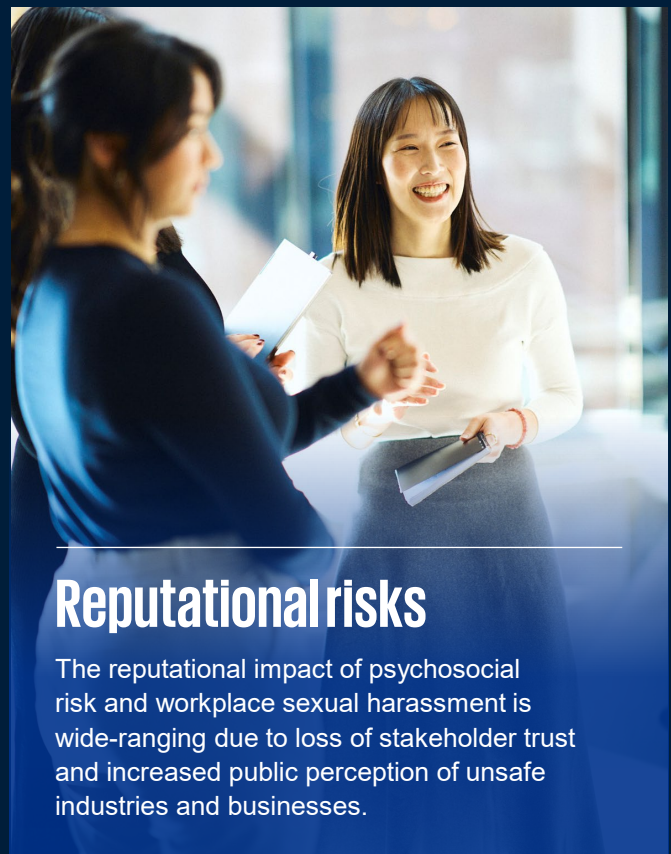
The median compensation paid for mental health claims in 2020-2021 was

\$58,000

This is almost four times the median compensation paid across all claims.

Psychological injury claims result in significantly higher costs and time off work for employees, compared to physical WHS claims.¹

¹Safe Work Australia, Australian Work Health and Safety (WHS) Strategy 2023–2033: Baseline report on targets, 2024.



Reputational risks

The reputational impact of psychosocial risk and workplace sexual harassment is wide-ranging due to loss of stakeholder trust and increased public perception of unsafe industries and businesses.

Governance risks

Directors have governance responsibilities and can strongly influence the culture and accountability of the organisation through their behaviour. Directors can also influence critical decisions about the deployment of resources for managing psychosocial risk and sexual harassment, and the development and implementation of policies and processes to support organisational compliance with relevant legislation.









The role of the Board and Directors

Directors must consider the broader intention of regulatory requirements – to protect the health, safety and wellbeing of people.

To meaningfully address workplace psychosocial risk and sexual harassment, leaders need to address the underlying systemic drivers of harm and not engage in compliance as a 'box-ticking' exercise. To set the tone from the top, Boards and Directors must prioritise these issues, ask questions and regularly seek information and specific data and reporting on relevant areas of investigation.

Directors must also understand the skillset required to conduct psychosocial and sexual harassment risk assessments and the steps necessary to control these risks. The organisational contributors to psychosocial hazards are different and often more challenging to review and assess compared to physical hazards. Psychosocial hazard management requires a deep understanding of the organisation, its operations, leadership and workplace culture, as well as emotional intelligence to understand the cause and effect of the risk. Directors need ensure that management, HR, WHS and risk personnel are equipped with the necessary skills to address organisational and systemic drivers of psychosocial harm.

Key takeaways

-  Develop a multi-level, cross-functional approach to psychosocial risk management.
-  Uplift the capability of Directors and the Board to ensure effective oversight of these priority risks and that regulatory compliance will be met.
-  Review processes to ensure appropriate reporting, including serious incidents and trend data.
-  Ensure organisational processes and leader-led messages encourage a culture of safety, accountability and employee trust in reporting.
-  Have a robust and effective risk management process that is evidence-based and focuses on mitigating risk factors specific to the organisation. Incorporate job, organisational and physical workplace design into psychosocial and sexual harassment risk assessments.
-  Include regular consultation with the workforce and tailor controls to meet the needs of workers, especially those in priority groups based on their gender, race, sexuality or disability status.

How can KPMG help you meet your obligations?

KPMG brings a leading practice approach to working with Australian and global companies in preventing and managing workplace psychosocial risk; helping our clients confidently respond to regulatory requirements under *The Work Health and Safety (Psychosocial Risks) Amendment Regulations 2023* and *Anti-Discrimination and Human Rights Legislation Amendment (Respect@Work) Act 2022*.

Using a collaborative, evidence-based approach, we support businesses to develop and implement systemic, context-specific solutions to drive accountability, enhance workplace culture and prevent harm. We position our clients to proactively mitigate the significant legal, financial and reputational consequences of non-compliance with psychosocial risk obligations through audit and analysis, advisory, education and capability building, and tailored framework development and implementation.



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