

Escaping the Environment, Health, Safety and Sustainability Value Trap



A global mining service company's environment, health, safety and sustainability (EHSS) team thought they were facing another set of ho-hum regulatory requirements when they came across new chemical registration regulations. But its leader, Simon Wade, recently transferred from a hands-on operational role, realized that it was a \$100M business continuity problem in disguise.

Wade recognized that the company's latest business venture was predicated on its ability to sell chemicals as an integrated service, wherever and whenever its sales teams wanted. Not meeting the new registration requirements would keep many chemicals stuck at global customs docks, and potentially leave their customers stranded (or easy prey for the competition).

Wade, a new generation of leader, is starting to tackle a multi-billion dollar disconnect between business leaders and EHSS functions. He is 'escaping' the sustainability value trap. In ERM's experience, a huge amount of value looked over because the execs haven't seen it – or been helped to see it. As a result, they've ended up with the EHSS functions they ask for, i.e. narrow thinking, short-termist and (in especially in North America) compliance focused.

Mainstream investors increasingly believe that effective and efficient EHSS performance is an inherent feature of a well-run corporation. According to academics at Harvard and London business schools, a dollar invested in 1993 in a sustainability minded company would have grown to \$22.58 by 2014, compared with \$15.35 if invested in companies without such commitments.

Even with such upside at stake, many EHSS professionals are not well positioned or equipped to help achieve it if EHSS challenges are solved in their functional silo. Yet the solutions are often found in better understanding, collaboration and/or alignment with other services of the core business.

This thirst for 'deep operational integration' lies at the heart of an emerging trend.

Industrial sectors are now revealing the desire to make EHSS more strategic and operationally impactful. Some midstream companies have turned the growth agenda away from new capital projects to M&A due to stakeholder pressure. Some food and beverage majors are betting on renewable energy to succeed in a low carbon world. And some power companies are turning to operational performance improvement through EHSS to tackle fundamental challenges from consumers, regulators and their own 'post-utility' productivity agendas.

These companies are turning their EHSS functions into a genuine business partner by:

- Bringing seasoned operational people into EHSS functional leadership roles to drive connectivity and relevance
- Shrinking the distance between the C-suite and the EHSS function so that their insight helps executives create longer term value
- Articulating the business value of EHSS investments and options in a way (\$) that operations believe and can act on

- Using the latest information solutions to equip operations with the ability to make better real-time data-informed decisions
- Creating strong, effective functional organizations and cross-disciplinary teams (recognizing that most EHSS direct spend is on people)
- Increasing individual capability so that EHSS staff can truly support operational leaders in achieving practical change

In working with leading companies, ERM has learned that three fundamentals are critical in making change happen:

1. **Using discovery-based approaches to unearth hidden business cases so that EHSS investment matches intended business outcomes:** Translating value creation (growth) and value protection (risk management) potential of EHSS programs into business and financial outcomes.
2. **Co-creating solutions with operational stakeholders to drive commitment to higher levels of performance:** EHSS tends to develop isolated programs from the main value-creating thrust of the business, which often leaves them on the outside looking in.
3. **Rapid prototyping of new EHSS programs to deliver optimal financial performance with appropriate risk management:** When adopting new management models or streamlining existing ones EHSS teams need to embrace the drive for efficiency at the same time as ensuring their programs are effective in protecting the business from external risk.

ERM has mirrored this shift by bringing together business, organizational and technical EHSS skillsets. This operational performance EHSS oriented approach is tough to execute because it demands new modes of collaboration and integration. But with many companies trapped in a cycle, the value gap is increasing. EHSS leaders and CEOs alike need to escape from the sustainability value trap.

Contact ERM's Operation Performance team members below to hear case studies, and learn about the seven questions EHSS leaders should be asking.

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