



ERM INSIGHTS

Integration: the next frontier for EHSS and operational risk

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Abstract

How big is the disconnect between the business leaders and EHSS function in your company? How many millions are left on the table for the lack of collaboration, integration and alignment between operations and EHSS?

Senior clients are working ever harder to help their organizations unlock that value by moving from managing functional 'outputs' (e.g. regulatory reporting) to working across the enterprise to deliver business 'outcomes' (such as business continuity). Increasingly they are turning to new leadership solutions to get the job done.

Integration: the next frontier for EHSS and operational risk

When one global mining service company's environment, health, safety and sustainability (EHSS) team first came across new chemical registration regulations they thought they were facing another set of ho-hum regulatory requirements that their bosses would rather ignore. But its leader, Simon Wade, who had recently moved from a hands-on operational role, quickly realized that it was really a \$100M business continuity problem in disguise.

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

Wade is one of a new breed of leader that is going to the next frontier: tackling a multi-billion dollar disconnect between business leaders and EHSS functions. In ERM's experience, a huge amount of value is being left on the table 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. small thinking, short-termist and (in North America in particular) compliance focused.

This at a time when 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 frequently not well positioned or equipped to help achieve it; often because they try to resolve EHSS challenges in their functional silo. Yet the solutions are nearly always to be found in better understanding of, alignment with and collaboration in service of the core business.

All industrial sectors are now revealing the desire to make EHSS more strategic and more operationally impactful. From Board members of midstream companies who've turned the growth agenda away from new capital projects to M&A because they "can't get new pipe in the ground" due to stakeholder pressure like the recent Dakota Access Pipeline protests. From food and beverage majors that are making big bets on renewable energy to succeed in a low carbon world. And from power company execs who are throwing themselves into operational performance

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

improvement through EHSS to tackle fundamental challenges from consumers, regulators and their own 'post-utility' productivity agendas.

SEVEN QUESTIONS EHSS LEADERS SHOULD BE ASKING THEMSELVES

How well do I influence the C-suite and Board?

Can I articulate the business value of EHSS activities in terms that operational leaders understand (\$)?

Am I leveraging data and technology to support daily operational decision making?

What skill sets do my staff professionals need to engage as business partners?

How am I working with core business leaders every day?

Which other functional teams am I allied with?

In the search for efficiency gains, are we increasing the risk profile of the organization?

These companies are overtly focusing their EHSS functions on the strategic and operational business agenda (see Inset: Seven Questions EHSS Leaders Should be Asking), by:

- Bringing seasoned operational people into EHSS functional leadership roles to drive greater connectivity and relevance (and working hard to keep their eyes on the 'value' prize),
- Shrinking the distance between the C-suite and the EHSS function so that their insight helps executives drive longer term value creation,
- 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 data-informed decisions 'in the moment' (rather than months later),
- Creating strong, effective functional organizations and cross-disciplinary teams (recognizing that 40% of average EHSS direct spend goes on people), and
- Increasing individual capability so that EHSS staff can truly support operational leaders in achieving practical change.

Through our work with some of these 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 is well matched to intended business outcomes: Translating into business and financial outcomes the value creation (growth) and value protection (risk management) potential of EHSS programs.

2. Co-creating solutions with operational stakeholders to drive commitment to higher levels of performance: EHSS has a tendency to develop its own programs in isolation 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 building out its operational performance team, bringing together business, organizational and technical EHSS skillsets. Our work has helped multiple organizations achieve great business outcomes with and through great EHSS performance (see Inset: Case Studies).

One example comes from a \$10B capital project where we helped its EHSS leader, Roberta Smith, to mobilize a joint design, operations and permitting team to frame a common approach – a deliberate assault on the traditional siloes. Together they were able to better understand how community and regulatory concerns about their proposed chemical plant would affect the construction schedule – and more importantly, how those concerns could be assuaged by changes to the engineering design and operating regime. As a result, Smith and her colleagues identified schedule improvements worth \$500M.

CASE STUDIES

- O&G executives were frustrated that their multi-billion dollar capital projects were routinely delayed due to environmental and social challenges. ERM identified \$786M in NPV erosion for a sample of projects to help crystallize change. We delivered hands-on performance improvement for six capital projects in NA, including one where the client estimated potential schedule improvements worth \$500MM.
- A leading mining house was concerned that despite improvement in incident rates its workers were still being seriously hurt. ERM's work showed that overly-complex processes were detracting from a leadership drive towards 'zero harm'. Our joint site safety acceleration program, which involved several functions of the company, cut injury rates by 50%-plus and the winners of the annual CEO Safety Award have hailed it as the key to their success.
- After a major explosion and loss of life a North American power generator faced unprecedented fines, jail time for executives and reputation breakdown. ERM's work created robust, data-driven assurance processes that operations are now being safely run. Capex and Opex have been optimized which according to the client has saved more than \$20M in avoided generation costs alone.

This operational performance oriented approach to EHSS is simple to say but tough to execute because it demands adopting new modes of collaboration and integration. But with many companies trapped in a cycle that they've been unable to break out of the value gap is getting bigger. EHSS leaders and CEOs alike need to escape from the sustainability value trap.

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