

Environmental Assurance & Governance

Many EHS assurance programs have not kept up with the changing risk landscape, and will need realigning in order to provide true “assurance” to corporations and their stakeholders.

Twenty minutes per year. For most companies, that is all the time the Vice President of Environment, Health & Safety (EHS) has to provide a report about the EHS audit results to the board of directors (or board committee).

Typically, the report conveys: *“We have a good program; we are auditing the right places; and the issues we are finding are getting fixed according to schedule.”*

The problem (supported by our recent survey of EHS governance) is that some board members walk away from the annual presentation of EHS audit results with a false sense of security. How? They may take away the message that “all is under control with EHS.” Instead, what the VP is really telling them is that “the audit program is working well.”

Our latest survey suggests that the risk landscape is changing and many EHS audit and assurance programs have not kept up with the times. We expect that to change too.

Corporate Survey

We undertook the survey to confirm or disprove our premise that the world is changing fast with respect to EHS risks and that the EHS assurance system (largely the EHS audit program) is not.

The survey was designed to:

- Gauge the state of governance systems to manage environmental risk and opportunity, and
- Determine how existing EHS audit and assurance programs and board reporting are responding to that changing landscape.

Of the 50 corporations we reached out to, 25 completed the comprehensive survey. Ranging by size of annual revenues from \$3 billion to \$50 billion, the participants represent a mix of

major industry sectors including: aerospace, automotive, chemicals, computer hardware and software, consumer products, energy, food and beverage, health care, industrial and farm equipment, and pharmaceuticals.

Is a Perfect Storm Brewing?

A convergence of three key factors (supported by the survey results) is shaping the EHS risk outlook.

First, how corporations define and consider EHS is changing:

- The scope of EHS is expanding to include agendas for sustainable development (SD) and corporate social responsibility (CSR).
- Board member interest in EHS, corporate social responsibility, and sustainable development is rising.
- Product-related EHS risks have grown rapidly in the past few years, yet most companies do not have strong controls in place to address these risks.

Second, traditional EHS assurance mechanisms have not changed significantly during the past three years. These mechanisms include compliance audits, self-audits, management system assessments, and other tools such as assurance letters. Even more troubling, many companies say that they do not plan to make significant changes to these programs over the next three years.

Third, EHS budgets have remained flat or have decreased—despite growing board interest, expanding scope, and increasing risk.

How Does It Compare?

Compared to three years ago, more than half of the survey respondents told us that board-of-director interest in EHS has increased.



In addition...

- More than 70% said product-related EHS risks have increased; and 30% said these have increased significantly. Yet, less than 5% said their product EHS audits have changed significantly.
- Moreover, 67% said EHS budgets have decreased or stayed flat.
- And 92% said their EHS audit programs have stayed about the same or increased compliance and management systems audits somewhat.

Looking out over the next three years, the respondents pointed to:

- *Status quo.* Most said that EHS audits would stay about the same or increase somewhat.
- *Increased product focus.* 59% said product-related audits would increase somewhat in the next three years.

The Words Behind the Numbers

Representative comments from the participants fall into a few buckets...

It is time to completely rethink EHS risks.

- *“It’s all about understanding – and then quantifying – our full life-cycle EHS risks.”*
- *“The precautionary principle is causing key customers to request a lot more information about product content”*

We have to strengthen our EHS governance system.

- *“I have only 10 minutes a year with the Board Audit Committee to discuss EHS!”*

The pressures from Europe and Japan are daunting.

- *“EU pressures are causing us to re-look at our core materials.”*
- *“Leading Japanese companies are years ahead of us in driving down full life-cycle environmental impact.”*

Implications for Businesses

We are at an important turning point. Successful twenty-first century companies are bringing new

thinking to the boardroom. So what should CEOs and EHS leaders do now? We are counseling our clients that three actions are particularly important:

Reassess. Look carefully across your full value chain from the wellhead to final product disposition and answer the question: What are the top ten EHS (and related SD/CSR) risks facing our corporation over the next 5-10 years?

Rethink. Conduct a review of the existing governance systems and processes related to EHS and corporate responsibility, and determine alignment with the top ten risks.

Retool. In a time of great complexity and change, it is not prudent to assume that the tried and true assurance tools are the right ones going forward. The leaders are starting with a clean slate. Though three proven tools gaining greater consideration are: (1) the assurance letter process; (2) a “radar” to track emerging issues; and (3) the “dashboard” to tell the board what they need to know.

About the Author

Gib Hedstrom has 25 years of experience in helping senior executives and boards of directors manage environmental and social issues to reduce cost, limit risk, and strengthen reputation and shareholder value. Mr. Hedstrom led Arthur D. Little’s EHS auditing, strategy, and governance work, and also led the corporate environmental and sustainable development practices at PA Consulting. He founded Hedstrom Associates in 2004.

For more information about the survey and its implications for implementing best practices for EHS assurance, contact Gib Hedstrom at info@hedstromassociates.com, or by phone at 978.371.9814.

