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Environmental Health & Safety: A Leading Influencer in Corporate Risk Mitigation Strategies

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When asked to define the significance of his students' existence in this vast universe, a teacher replied that it was the recognition of the interdependencies of the smaller elements in life that give meaning to the bigger universe around us. And true interdependence can only be realized by looking at the universe from the outside in, not the inside out.

Environmental Health and Safety (EHS) professionals have long looked at corporate risk from the inside out perspective. Yet, as this article demonstrates, an outside in approach allows the corporate risk framework to be dissected into simpler layers.

Intrinsic to corporate risk, EHS should be an important component of the organization-wide risk management framework. Yet, without an approach for integrating EHS risk elements into the larger corporate risk perspective, we typically fail to leverage the increased shareholder value EHS creates in the business. In large part, EHS risk is still considered as a lagging influencer, meaning that our experience and insight is sought after an event has occurred – our role is to react. By taking deliberate action to shift our role and become a leading influencer, we gain opportunities – much like a leading indicator – to make strategic choices that proactively shape future events.

As EHS professionals, we are responsible for raising awareness of our critical role in driving effective risk management frameworks. Our daily decisions and actions to contain, minimize or eliminate health and safety risks directly affect the financial bottom line. We touch every facet of corporate America – from production lines to credit lines, from boiler rooms to boardrooms. Yet, we still fail to have an appropriate voice in developing the right risk management strategies, meaning our contribution to those risk frameworks is seldom recognized until a catastrophic incident occurs.

So, how do we begin to look at the economics of risks with EHS as a leading influencer? How can we influence the corporate risk paradigm?

The first step is understanding where we fit within the corporate risk hierarchy. In a traditional model, corporate risk looks to manage any losses resulting from inadequate or failed internal processes, people and systems or from external events – with a focus on financial or operational risks. Traditional EHS risk is defined as the probability and magnitude of harm or loss from an undesired event that affects people, processes and the environment. Those traditional definitions underscore that all risk frameworks have three things in common: people, processes and systems (environments). And since risk is inherent in everything we do, the success of all risk-related frameworks hinges on an organization's ability to proactively identify potential failure and preemptively contain it, if necessary. In EHS, proactive preemption is how we anticipate, recognize, evaluate and control risk factors.

When we dissect a typical corporate risk framework, we find several other key elements play important roles. Although these elements are seldom highlighted, their inclusion is taken for granted when we talk about corporate risk frameworks. Six of the main notable elements include: operational risk, financial risk, business risk, functional risk, relationship risk and physical risk.

Just as these key risk elements are critical for quantifying and qualifying corporate risk, they also are integral for formulating and reporting EHS risk. The following illustration captures a typical corporate risk landscape, providing a starting point for reframing EHS' influence on corporate risk from the outside in. This model starts with two major business concepts, business processes and business relationships, and details the important risk elements at each point. The heart of the model is the risk management and control mechanism, fed not only by operational and financial risk frameworks but by EHS risk frameworks as well.

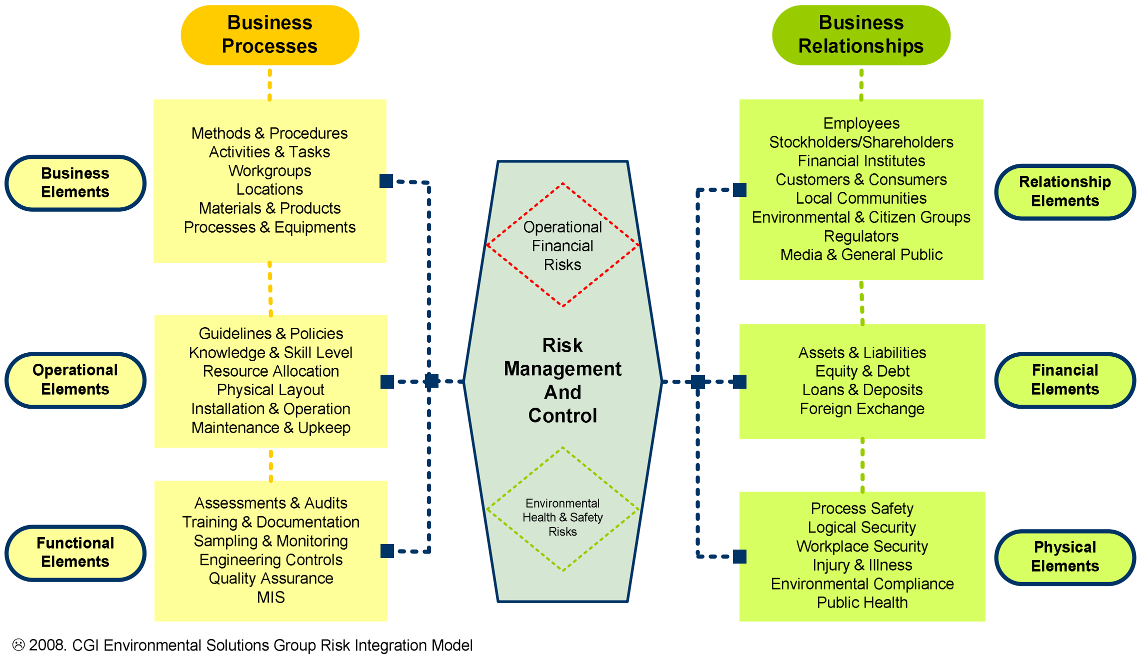

Exhibit 1. EHS Risk Integration Model

The following examples highlight how we could better integrate EHS risk management into the overall corporate risk strategy:

Example1: Under business processes, the business elements component includes activities and tasks. An organization's ability to develop, implement and sustain business process activities and tasks is fundamental to its competitive advantage. Clearly defined activities and tasks drive an organization's process efficiencies, knowledge management, training and skill development, and management systems initiatives. Documenting, monitoring and improving activities and tasks reinforce quality management and play a key role in mitigating process risks. One example integration point with EHS in overall business process risk management is through the job hazard analysis (JHA). JHAs enable a business to document, measure and resolve unsafe activities and tasks, eliminating operational vulnerabilities. EHS practitioners can market tools such as standard JHA processes as significant resources in mitigating overall business process risk.

Example 2: Under business relationships, the relationship elements include regulators as a risk sub-element. Creating, managing and sustaining healthy relationships with regulators influences the organization's image, and businesses invest significantly in these relationships. Whether a business is regulated by the Federal Trade Commission (FTC), the National Association of Insurance Commissioners (NAIC), the Federal Deposit Insurance Commission (FDIC) or the Public Company Accounting Oversight Board (PCAOB), how it interprets and understands regulatory codes to maintain compliance involves risk. Through regular interaction with federal, state and local regulatory agencies, EHS practitioners have seasoned experience in relationship management. EHS already contributes to the corporate image by ensuring compliance in areas such as public health, environmental protection and occupational safety codes. This is another opportunity where the EHS community can add value and expand its influence at the corporate risk level.

Understanding how EHS influences each risk element enables us to better answer the following question:

> *How do we evolve EHS risk from its traditional legal or moral role in the corporate risk framework to a more strategic, accountable and visible component that constitutes good business sense and proactively influences effective risk management?*

The answer begins by taking action, as EHS professionals, to drive and advocate for greater risk integration across the corporate risk framework. We need to continue to identify and seize opportunities where EHS risk is an interdependent part of any risk element. As highlighted in the two examples above where EHS has an interdependent role, we must continue to push through operational complexity and map out additional opportunities.

Only when we evaluate ourselves with that desired outside in approach can we build a more efficient and harmonized corporate risk management framework – and shed EHS' historic role solely as a reactor when a risk event occurs. The transformation of EHS into a leading influencer in risk management will generate stronger strategies for identifying, isolating and rectifying corporate financial, operational and EHS risks.