How can investment in EHS drive corporate success?

Global EHS Maturity Study

February 2024

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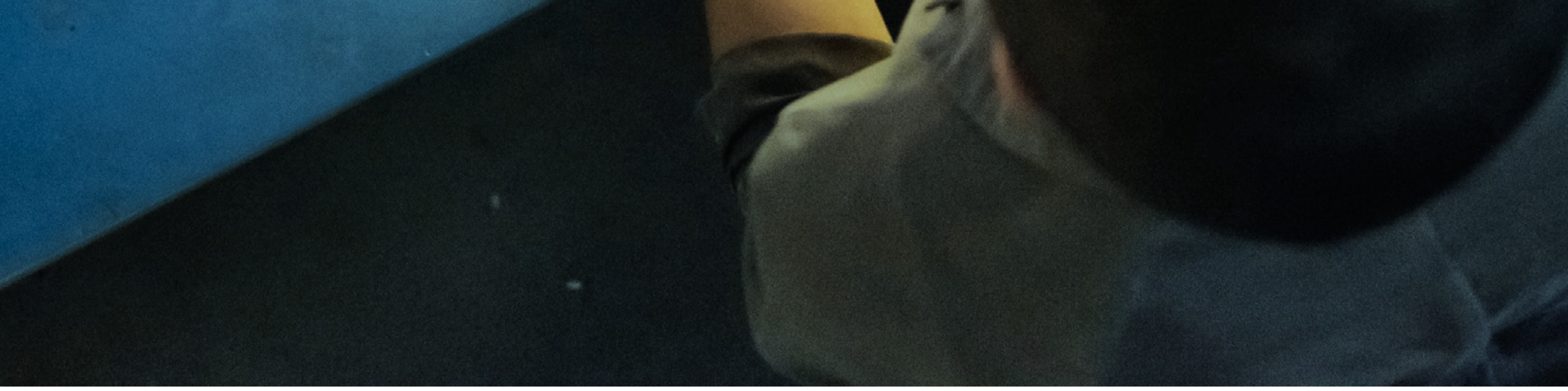

In an era where the spotlight on corporate behavior and its consequential impact increasingly sways consumer opinion and action, organizations are recognizing that it is no longer enough to simply generate profit. Successful organizations also need to demonstrate a commitment to their broader societal and environmental footprint. The role of the Environment, health and safety (EHS) management is fast becoming a linchpin within this transformative business environment.

EHS within a business context has evolved rapidly, growing from compliance-centric protocols focused on warding off regulatory penalties into a far-reaching program that prioritizes inclusivity, fairness and strategic goal-setting. Today, the significance of EHS transcends the conventional measures of keeping employees safe and reducing environmental damage. It now embodies a company's dedication to a universally beneficial value proposition: one that promotes a healthier, safer and more sustainable future for all, from staff and customers to the communities and ecosystems they interact with.

As businesses strive to protect and enhance the wellbeing of their stakeholders, EHS initiatives become much more than mere management tools. They are symbolic manifestations of a company's mission, vision and values operating on the global stage. Consequently, companies could find that investment in EHS strategies is not just an ethical decision, but a practical one as well.

Given all the above, there should be an obvious case for investment in EHS across an organization but, when talking to clients, we frequently hear of the need to formulate a business case to prove that there is merit in this approach, as well as difficulties (particularly in challenging times) in competing for funding for projects. Because EY believes that EHS management can be a strategic source of value to navigate an ever-evolving economic landscape while contributing positively to society, we commissioned this research to look at the relationship between an effective EHS function and the efficient running of an organization, and to help support these conversations at board level. As this is an area of research that has not been explored to this extent previously, we see these results as an indicator of success, but welcome further dialogue to help build trust and confidence in this area.

Embracing the EHS function as a strategic priority becomes a self-fulfilling prophecy — one that not only safeguards tangible and intangible assets such as the wellbeing of individuals, communities and the environment but also contributes to the long-term prosperity and success of the business. Creating tomorrow's thriving companies, therefore, is inexorably linked to integrating EHS across the whole organization today.

Dr. Matthew Bell,
EY Global Lead,
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Executive summary

In recent years, the world has experienced a series of unprecedented events — from the global pandemic to extreme climate events such as devastating floods and wildfires, to an evolving social justice movement that demands corporations do more than advance shareholder interests alone.

It is against this backdrop that the Environment, health and safety (EHS) function has grown to become vital as both a strategic enabler and a foundation for value creation. It is central to a company's ability to deliver on its ethical commitment to safeguarding people and the planet. It represents a company's proactive stance around stakeholder interests that extend far beyond compliance with regulation – indeed, EHS functions signal the extent of a company's genuine dedication to the wellbeing of all stakeholders. In an era where ethical considerations increasingly shape consumer choices and investor decisions, the EHS function has become a powerful symbol of lived corporate values and principles.

However, despite its criticality, a central question remains: Can improved EHS performance also lead to improved financial performance for companies? It has long been believed by many EHS professionals that better EHS is better for businesses, but is this really the case? And if so, what are the key levers which have the biggest impact? This report seeks to answer these questions.

About this analysis

This EY teams' research analyzed data from 9,000 of the largest public companies around the world to assess the relationship between EHS performance and company financial, social and regulatory performance to see if increasing EHS maturity can improve overall performance.

In addition, EY teams conducted a study to help identify distinctive features of companies with the highest EHS maturity.[1]

The results are a first step toward establishing links between investment in EHS and value creation for businesses. We welcome further dialogue about the findings as we continue our journey toward building confidence in the broader benefits that EHS functions can bring to organizations.

Key findings

This analysis suggests the potential for EHS performance to be a driver of improved financial, social and regulatory performance, and that the practices that increase EHS maturity can be adopted by any enterprise.[2] The key contributors to EHS excellence are clear, practical and obtainable.

In particular, the analysis suggests that:

- Companies that improve their EHS performance also typically improve their financial, social and regulatory performance. This was especially the case in more advanced economies.
- Companies with high-performing EHS functions saw faster increases in their net income, revenue and market capitalization in a select 10-year period compared with average performers.
- Results are generally consistent between industries, but companies in industries with higher EHS risk (e.g., advanced manufacturing and mobility) typically have a stronger relationship between EHS performance and company performance.
- EHS maturity varies far more among individual companies than by region, annual revenue or industry. Thus, achieving EHS maturity is more a matter of practices adopted by individual companies than external factors such as location or industry.

A high-performing EHS function is a characteristic of a high-performing company in general. This analysis suggests that the EHS function is a distinct value driver. Companies have a clear opportunity to increase revenue, income and, ultimately, market capitalization from improved EHS maturity and learning from leading enterprises.

Distinctive features of a mature EHS function

EY teams used a survey to identify and study highly mature EHS functions by scoring companies on a maturity index. The index included dozens of features associated with a mature EHS operation, such as having dedicated EHS technology, having the EHS function accountable to executive leadership, and EHS training for all new employees. However, achieving high maturity requires performance across a range of areas, with no single, or even handful, of features having a broad influence over the score. The index was informed by the EY EHS Maturity Model, a values-driven strategic framework that can help companies make sense of the many paths to EHS maturity by organizing EHS practices into levers to be applied.

The companies responding to the survey have an average maturity level of 41 out of 100. This indicates that most companies have just under half of the components of a leading EHS function.

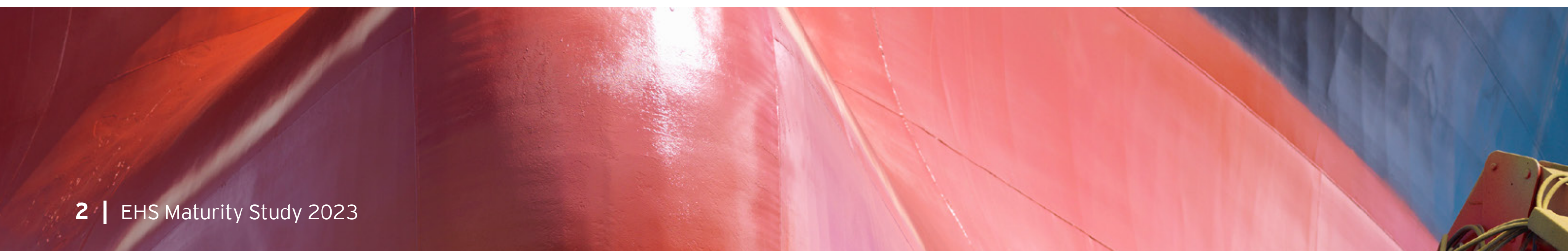
The analysis found that many of the practices of highly mature EHS functions are accessible to all companies, with high EHS maturity found at every company size and in every industry.

Distinctive features include:

- A mature EHS function has a presence throughout the company. Mature EHS functions frequently report collaborating with, and reporting data to, all levels of the company. These functions make an effort to incorporate the perspectives of various employees in policy development and align EHS personnel and policy to specific risks in the company. In addition, mature EHS functions often provide customized EHS training for new employees and take on the management of psychosocial risks for employees.
- Accountable leadership and governance of the EHS function is often secured through incentives. Companies with mature EHS functions frequently tie EHS performance to executive compensation.[3]
- Effective EHS functions have a well-defined structure and supporting systems. The organizational structure of mature EHS functions is clearly defined; has a positive impact on control management, and facilitates communication and collaboration.[4]
- The digital management of the EHS function provides the company with a level of reporting sufficient to improve the management of EHS, identify trends and help the EHS function analyze itself. Mature EHS functions almost always have dedicated EHS enterprise technology systems.[5]
- Companies with mature EHS functions promote a positive EHS culture by managing the psychosocial risks of employees, encouraging them to raise concerns about EHS matters and to support employees when they are not fit for work.[6]
- High-maturity EHS functions have formal EHS plans with a strong focus on continuous improvement. These plans were developed through extensive collaboration with individuals at all levels of the company.
- Companies with high EHS maturity use reporting in a strategic way. This includes supporting the "three lines of defense" strategy by reporting EHS risk, performance and incidents to all levels of the company, and frequently using EHS metrics to recognize EHS excellence.
- EHS maturity is strongly associated with a robust risk management function and conducts regular internal audits.[7]

What does this mean for you?

You can help achieve EHS maturity by adopting specific practices that are often low cost and high impact. These practices are frequently choices leaders can make and not necessarily large-scale investments. EY analysis suggests that the EHS function is an underutilized asset for achieving operational as well as financial excellence. The call to action is clear: EHS can be embraced as a strategic source of value to navigate an ever-evolving business landscape while contributing positively to society.



CHAPTER 1

Higher EHS performers typically achieve higher financial, social and regulatory performance

FOR CONSIDERATION:

How do you think your organization compares with the findings of the study?

EY teams analyzed 11 measures of company financial, social and regulatory performance, and six measures of EHS performance, to examine a possible relationship between EHS performance and company performance (Table 1).

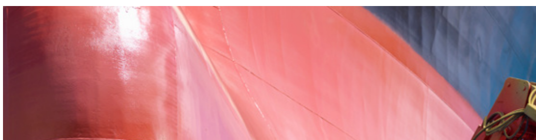
The long-term (i.e., 10-year) trend of each company's financial, social and regulatory performance was compared with each EHS performance measure. For example, the 10-year change in the net income of a company was compared with the 10-year change in the "E" of a company's Environmental, Social and Governance (ESG) score.[8]

It is acknowledged that these EHS performance measures may not give the deepest insight to EHS performance at a particular organization. For the purpose of comparison, the most available measures have been selected. Survey results dive deeper into broader features of EHS performance and maturity, and their impact on corporate success.

Table 1. List of all EHS and company performance measures used in the analysis

EHS performance measures		
Lost time injury rate Total injury rate	Presence of heath and safety team Employee health and safety policy	"E" of ESG score[8] Scope 1 and 2 emissions
Company performance measures		
Financial	**Social**	**Regulatory[9]**
Net income Revenue Market cap Revenue/employee	Employee turnover rate Announced layoff rate Employee turnover rate (excluding announced layoffs) Proportion of female employees Corporate responsibility awards	Environmental controversies EHS controversies

All data was sourced from Refinitiv.



Environmental performance

EY analysis suggests that companies that improve their environmental performance typically improve their financial (Figure 1), social (Figure 2) and regulatory (Figure 3) performance in a given time range.

Figure 1 compares a company's environmental performance (measured by the 10-year change in the "E" of it's ESG score) with its financial performance (measured by revenue growth over the past 10 years).[10] The figure suggests that a company that improves its environmental performance also typically improves its financial performance. This finding implies that companies can address environmental challenges without compromising financial performance.

Figure 2 examines the relationship between a company's environmental performance — again measured as the 10-year change in the "E" of a company's ESG score — and its social performance. Here, social performance is measured as employee retention.[11] The figure suggests that a company that improves its environmental performance also tends to lower its employee turnover rate. This relationship supports the notion that employees are more likely to stay with companies that prioritize environmental sustainability.

Figure 3 displays the regulatory dimension of EHS. Specifically, it displays the relationship between a company's environmental performance (as indicated by the 10-year change in the "E" of its ESG score) and its regulatory performance (as indicated by the number of years with EHS controversies over the past 10 years).[12] The figure suggests that a company that improves its environmental performance also tends to have fewer EHS controversies. This not only reflects positively on a company's reputation but can also contribute to better financial results, as fewer controversies can lead to smoother operations and reduced risks.

Note for Figures 1–8: The analysis was conducted on 9,000 companies from countries headquartered in the Americas, Europe, Middle East and Africa (EMEIA), and Asia-Pacific regions (3,000 companies from each) with the largest market capitalization in the latest fiscal year. When assessing the relationship between each pair of variables, the analysis only included a subset of the 9,000 companies that had data for both variables. The range of the number of companies included in assessing each relationship for all areas is 160 to 2,709, with a median of 862 companies. Financial metrics are adjusted for inflation. The trend line is a univariate linear regression. Any modeling effort is only an approximate depiction of the economic forces it seeks to represent, and the economic model developed for this analysis is no exception; see endnotes for caveats and limitations.

Figure 1. Relationship between environmental performance ("E" of ESG score) and financial performance (revenue growth)

Increased environmental performance correlates to increased financial performance

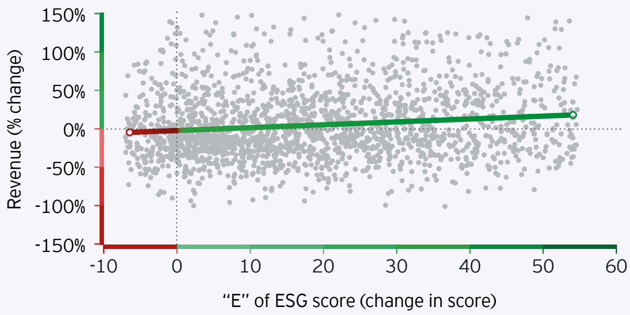


Figure 2. Relationship between environmental performance ("E" of ESG score) and social performance (employee turnover rate)

Increased environmental performance correlates to increased social performance

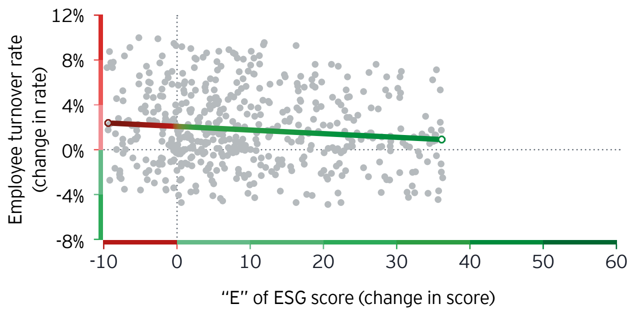
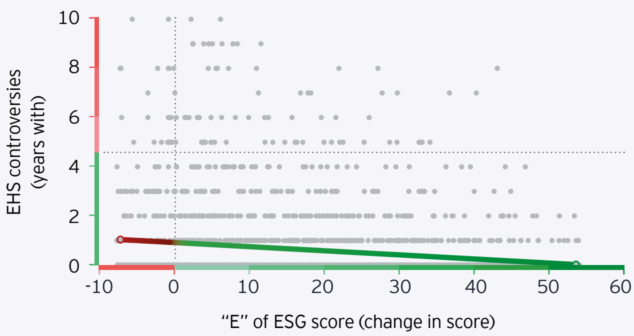
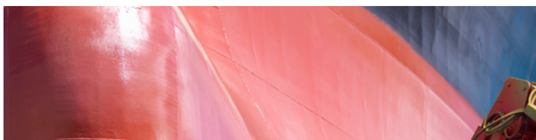


Figure 3. Relationship between environmental performance ("E" of ESG score) and regulatory performance (number of years with EHS controversies)

Increased environmental performance correlates to increased regulatory performance





Health and safety performance

EY analysis suggests there may be a link between companies improving their health and safety performance and also improving their financial (Figure 4), social (Figure 5) and regulatory (Figure 6) performance.

Figure 4 displays the relationship between a company's health and safety performance (measured by the 10-year change in its total injury rate) and its financial performance (measured by the 10-year growth in its net income).[13] This figure suggests that a company that lowers its total injury rate may also increase its net income. This relationship implies robust health and safety practices may not only protect employees but also have an impact on a company's financial performance, as fewer injuries can mean smoother operations, lower costs and a stronger reputation.

Figure 5 displays the relationship between a company's health and safety performance – again measured as the 10-year change in a its total injury rate – and its social performance. Here, social performance is measured as the 10-year change in the company's announced layoff rate.[14] The figure suggests a potential link between companies that decrease their total injury rate and those that also decrease their announced layoff rate. Such a relationship implies that when a company invests in the wellbeing of its employees, it can safeguard their health and contribute to the stability and continuity of its workforce.

Figure 6 displays the relationship between a company's health and safety performance – again measured as the 10-year change in a its total injury rate – and its regulatory performance. Here, regulatory performance is measured as the number of years that a company has had at least one EHS controversy over the past 10 years. EHS controversies include significant controversies related to employee health and safety, human rights, child labor, public health, customer health and safety, product quality, consumer complaints, and environment. The figure suggests that a company that decreases its total injury rate also tends to reduce the frequency of EHS controversies. This reduction in controversies can be significant, as it translates into a lower risk of legal, reputational and financial repercussions.

Figure 4. Relationship between health and safety performance (total injury rate) and financial performance (net income growth)

Increased health and safety performance correlates to increased financial performance

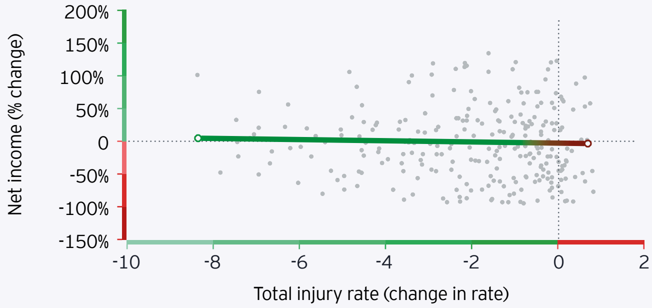


Figure 5. Relationship between health and safety performance (total injury rate) and social performance (announced layoff rate)

Increased health and safety performance correlates to increased social performance

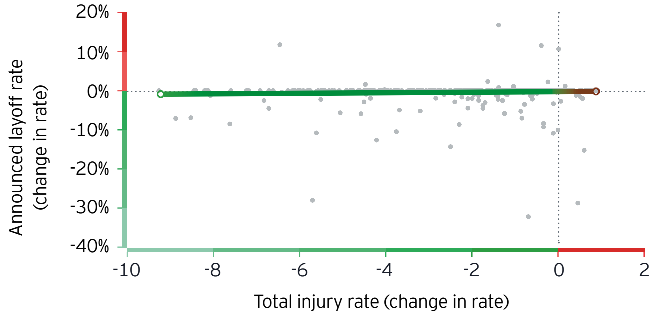
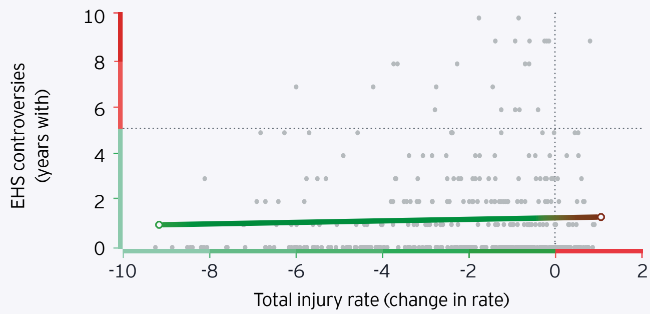
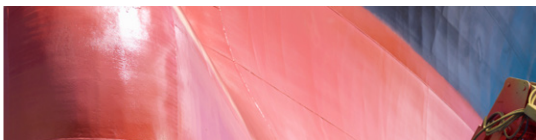


Figure 6. Relationship between health and safety performance (total injury rate) and regulatory performance (number of years with EHS controversies)

Increased health and safety performance correlates to increased regulatory performance





Geographic variation

Results are found to vary by region. As an illustration of this point, which applies to each component of EHS, Figure 7 displays how the relationship between environmental performance (here measured as the 10-year change in "E" of the ESG score) and financial performance (here measured as the 10-year growth in net income) varies by geography. Note that while only one relationship is presented, this result is illustrative of the geographic variation found in other relationships.

Specifically, the relationship is displayed separately for companies headquartered in the Americas, EMEIA and the Asia-Pacific regions. Results, of course, can vary within these aggregate regions (e.g., by country or less aggregated regions):

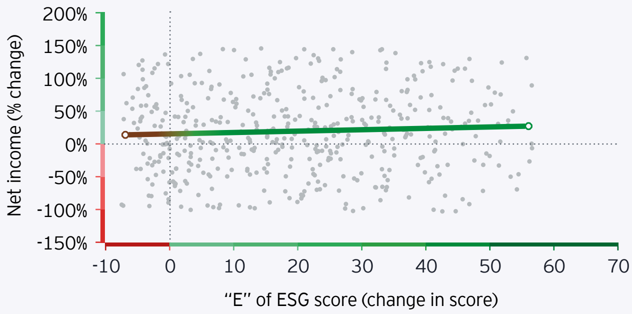
- The strongest association of an increase in the "E" of the ESG score with an increase in net income was found in the Americas. It is notably stronger compared with the other two aggregate regions, underscoring the potential significance of EHS practices in driving financial performance in advanced economies.
- In the EMEIA region, there was also an increase in the "E" of the ESG score associated with an increase in net income. However, the relationship was less strong than in the Americas. While EHS performance remains associated with financial social and regulatory performance in this region, the association is less pronounced than in the Americas.
- In the Asia-Pacific region, the association of an increase in the "E" of the ESG score with an increase in net income is also less strong than in the Americas. In addition the relationship between EHS performance and financial performance, while present, is not as robust as in the Americas.

The pattern suggests that while EHS practices hold importance across the globe, their potential impact on financial, social and regulatory performance may be more prominent in more advanced economies. As will be discussed, investments made to increase EHS maturity also reflect these patterns. Companies in regions where the relationship between financial and EHS performance was the strongest tended to have the highest average level of EHS maturity.

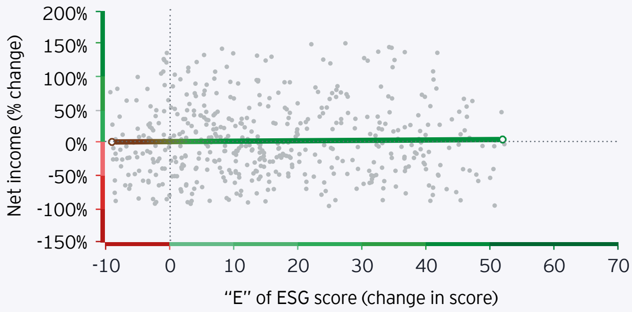
> Companies in regions where the relationship between financial and EHS performance is the strongest tend to have the highest average level of EHS maturity.

Figures 7. Relationship between environmental performance ("E" of ESG score) and financial performance (net income growth)

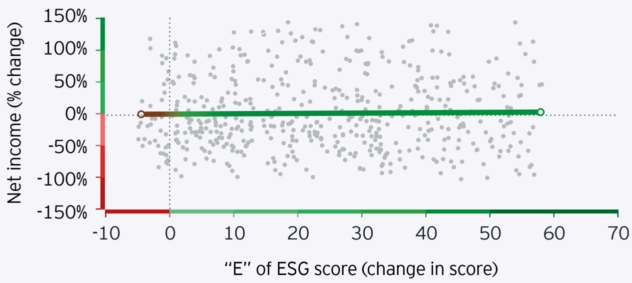
Americas | Relationship strength: **above average**[15]

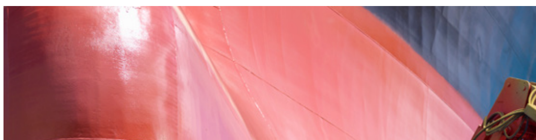


EMEIA | Relationship strength: **average**



Asia-Pacific | Relationship strength: **average**





Industry variation

Results are also found to vary by industry. Figure 8 provides an overview of the relationship between environmental performance (the "E" of the ESG score) and financial performance (here measured as the market capitalization growth over a 10-year period across all industries) as well as the following four illustrative industry groupings:[16]

- Life sciences and wellness
- Technology, media and telecommunications
- Advanced manufacturing and mobility
- Financial services

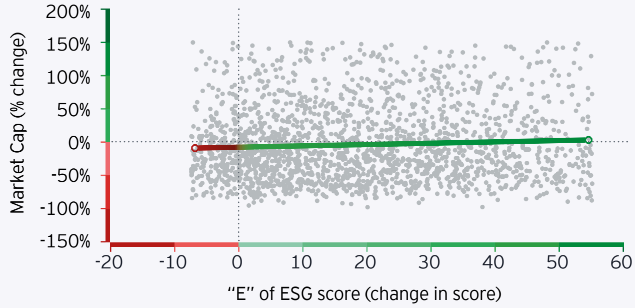
In examining the relationship between environmental performance and market capitalization within industry groupings, a notable trend emerges. Across the board, there is a consistent finding that companies that improve their environmental performance also tend to increase their market capitalization. However, the strength of this relationship varies among industries. Note that while only one relationship is presented, this result is illustrative of the industry variation found in other relationships.

In industries characterized by lower EHS risk, such as financial services, the relationship tends to be below average in strength. On the other hand, industries with inherently higher EHS risk, such as advanced manufacturing and mobility, exhibit at least an average, sometimes stronger-than-average, relationship between EHS performance and company performance.

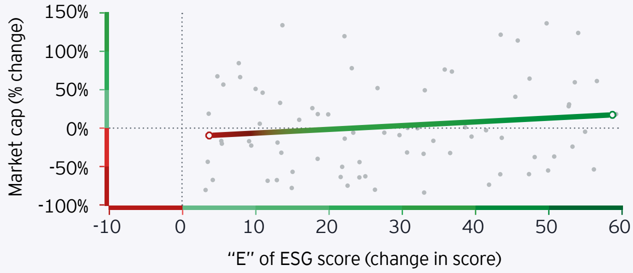
This distinction can be attributed to the nature of higher-EHS-risk industries. In such sectors, the potential consequences of poor EHS performance can be more pronounced. For instance, in advanced manufacturing and mobility, where operations may involve significant environmental impact and workplace hazards, a lapse in EHS standards can lead to legal liabilities, accidents and reputational damage. Consequently, investors and stakeholders may closely scrutinize EHS performance, making it a more influential factor in determining a company's market capitalization. By contrast, lower-EHS-risk industries may experience fewer immediate consequences for subpar EHS performance, leading to a comparatively weaker connection between EHS and financial outcomes.

Figure 8. Relationship between environmental performance ("E" of ESG score) and financial performance (market capitalization growth), by industry

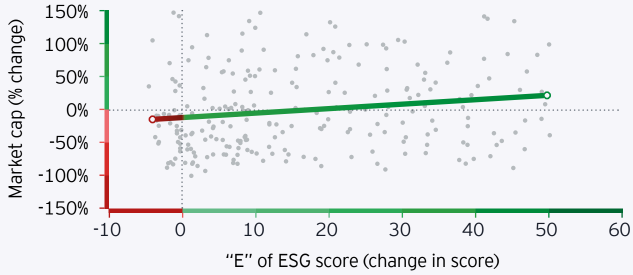
All industries | Relationship strength: **average**



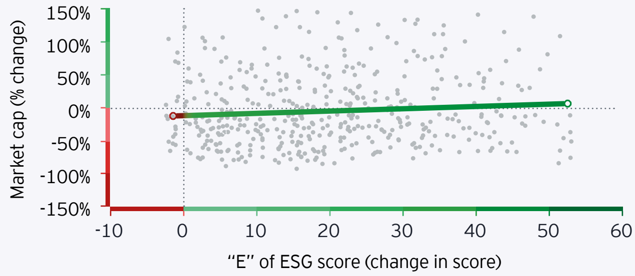
Life sciences and wellness | Relationship strength: **above average**



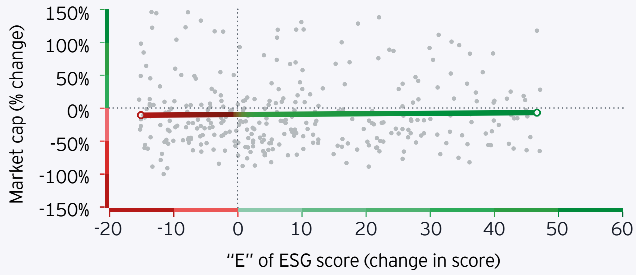
Technology, media and telecommunications | Relationship strength: **above average**



Advanced manufacturing and mobility | Relationship strength: **average**



Financial services | Relationship strength: **below average**



CHAPTER 2

Illustrative analysis: comparing an average EHS performer with a high EHS performer

FOR CONSIDERATION:

Do high EHS performers stand out in your industry?

There is a potential for financial, social and regulatory benefits for companies when improving their EHS performance.

Financial performance

- A high-EHS-performing company,[17] on average, achieved a 5% point increase in net income (22%) over the past decade compared with the average-EHS-performing company, which saw a 17% increase.
- A high-EHS-performing company, on average, achieved a 12% point increase in revenue (16%) over the past decade compared with the average-EHS-performing company, which saw a 4% increase.
- A high-EHS-performing company, on average, experienced a 7% point increase in market capitalization (10%) over the past decade compared with the average-EHS-performing company, which saw a 3% increase.

Social performance

- A high-EHS-performing company, on average, achieved a 3% lower employee turnover rate (i.e., a 0.1 percentage-point reduction from 3.1%).
- Though slight, there is a beneficial relationship between EHS and employee turnover rate. EY will examine this relationship in more detail in subsequent updates of this report.

Regulatory performance

- A high-EHS-performing company, on average, had environmental controversies for four months in the last 10 years compared with six months for the average-EHS-performing company.
- A high-EHS-performing company, on average, had EHS controversies for one year in the last 10 years compared with controversies for one year and five months for the average-EHS-performing company. EHS controversies include significant controversies related to employee health and safety, human rights, child labor, public health, customer health and safety, product quality, consumer complaints and environment.
- A reduction in the average number of controversies suggests a potential reduction in risk of legal and reputational challenges.

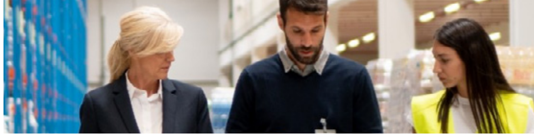
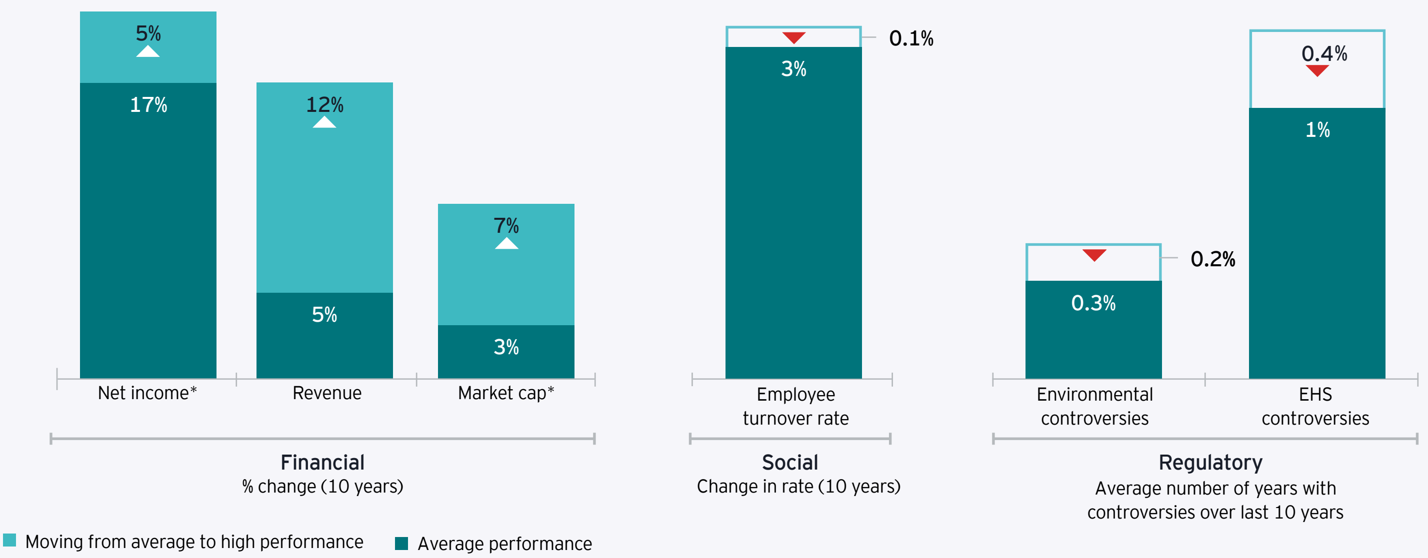


Figure 9 depicts the potential financial, social and regulatory benefits for a company when improving its EHS performance.[18] This illustrative analysis is conducted with an average public company headquartered in the Americas and a high-EHS-performing company that is a top performer in improving its EHS metrics over a 10-year period.

These findings underscore the positive impact EHS investments can have on overall company performance. Moving from average to high EHS performance can bring financial benefits such as increased revenue and net income. It can also foster social advantages, with lower employee turnover rates, and a potential reduction in the risk of legal and reputational issues by minimizing the frequency of controversies. In essence, these findings suggest that EHS commitment can align with long-term financial growth, social responsibility and regulatory compliance, making it a strategic imperative for businesses aiming to excel in multiple dimensions.

EHS commitment can align with long-term financial growth, social responsibility and regulatory compliance, making it a strategic imperative for businesses aiming to excel in multiple dimensions.

Figure 9. Illustrative analysis: comparing an average EHS performer with a high EHS performer



Note: Financial metrics are adjusted for inflation. An average EHS performer is a company with the average value of the EHS performance measure in the latest fiscal year. A high EHS performer is a company that has a value equal to one standard deviation above the average EHS performer in the latest fiscal year. In a normal distribution, this is approximately the 84th percentile. EHS performance for this illustrative analysis is measured by the 10-year change in the "E" in a company's ESG score. Correlation does not imply causation, and this analysis is based on correlations. Correlation provides valuable insights into the statistical relationship between two variables. There could, however, be underlying confounding factors or a third variable influencing both. This illustrative analysis provides suggested relationships. Results should be viewed as illustrative. Figured are rounded.

Source: EY Quantitative Economics and Statistics (QUEST) practice analysis.

CHAPTER 3

The EY EHS maturity model and Global EY EHS maturity survey

FOR CONSIDERATION:

Are the gaps in your company's EHS maturity development easily identifiable?

Even among sectors and regions with the highest average EHS maturity, most organizations fall well short of being advanced or leading.

EHS maturity index overview

Achieving high EHS maturity requires performance across a range of areas. This is because a mature EHS function must be aligned with the enterprise's values and present throughout the company. The Global EY EHS maturity survey has helped identify distinctive features of companies with the highest EHS maturity by seeing how they score and looking for what sets them apart. Accordingly, our maturity index included dozens of components related to ownership and accountability, EHS strategy, culture and compliance, and reporting and technology. There is no single, or even handful, of features that had a broad influence over the score, but high-performing EHS functions set themselves apart in a number of ways.[19]

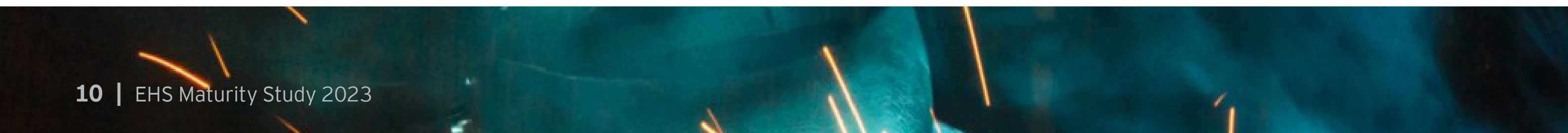
Companies with high EHS maturity have adopted specific practices, some of which are associated with high EHS maturity.

On average, the companies responding to the survey have a maturity level of 41 out of a maximum possible score of 100. This indicates that many companies have just under half of the components of a fully mature EHS function. This means that even organizations within top-scoring sectors or regions must take proactive steps to achieve the highest levels of maturity.

The average maturity index score for companies in the upper third of maturity is 66. It is just 15 for companies in the bottom third of maturity.

Overall, EHS maturity varied far more among individual companies than regions, sectors or revenue. This indicates that the attainment of EHS maturity is driven far more by practices adopted by individual companies than company sector or size. Even among sectors and regions with the highest average EHS maturity, there was still a large gap between the average reported maturity and what is needed to achieve an advanced or leading level of maturity.

There was minimal variation in average EHS maturity among industries. The highest average of 46 found in the financial services sector was only 13 points higher than the lowest sector average of 33 for the life sciences and wellness sector. Varying levels of EHS maturity were observed in all company sizes (measured by company revenue). The average difference between companies generating less than US$50 million in annual revenue (31) and those with more than US$1 billion in annual revenue (45) was only 14 index points.



CHAPTER 4

Applying levers to EHS maturity

FOR CONSIDERATION:

Does your company use any of the levers identified below to improve its EHS function? What about your industry peers?

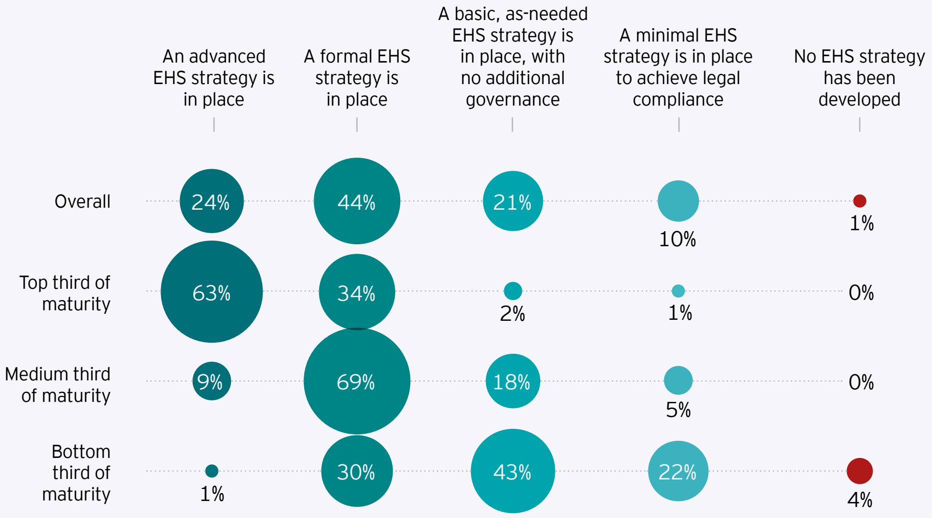
High-indexing companies adopt practices in line with the model.

High-indexing companies frequently have distinctive EHS practices in line with the principles of the EY EHS Maturity Model. For instance, mature EHS functions often use incentives strategically by attaching EHS performance to executive compensation and using EHS metrics to recognize EHS excellence. Additionally, mature EHS functions were frequently present throughout the company by either requiring EHS training in new employee orientation or aligning EHS professionals to role-specific risks. Examples such as these help demonstrate the importance of adopting distinctive practices across a range of areas to drive enterprise-wide EHS maturity.

Strategy and planning

EHS strategy and planning broadly concerns the way a company prioritizes key initiatives and aligns them to the company's values and operations. It is the overall game plan for how the company will identify and manage EHS risks and leverage opportunities.

Figure 10. EHS strategy type by maturity levels



Source: EY QUEST practice analysis.

As shown in Figure 10, 63% of companies with high EHS maturity had an advanced EHS strategy compared with just 24% of companies overall. For companies with the highest level of EHS maturity that have a formal or advanced EHS strategy:

51%

indicated that there was a strong focus on continuous improvement compared with just 34% of companies overall.

45%

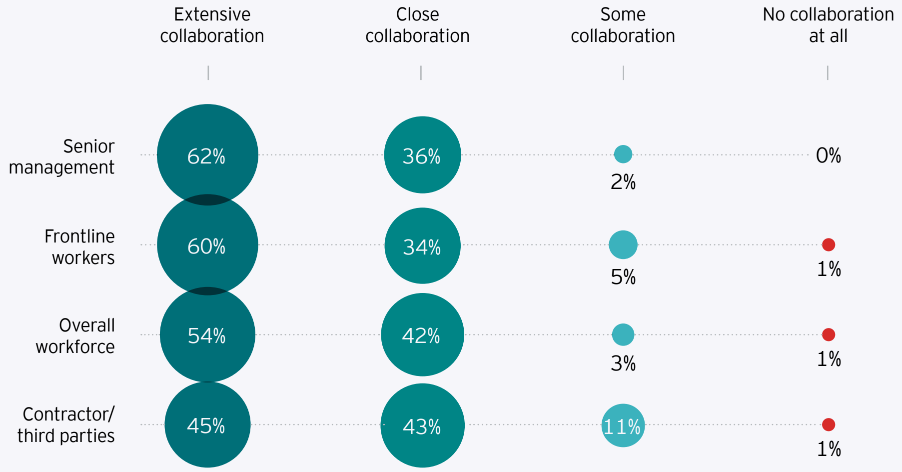
reported that the EHS strategy effectively considers the EHS maturity and risk profile of the company.

43%

reported that the strategy effectively links with the business's broader strategic objectives.

Figure 11 highlights the extent to which high-maturity EHS functions are designed with broad input from all levels of the company. Sixty-two percent of high-maturity EHS functions with a formal EHS strategy collaborated "extensively" with senior management in its development, 60% collaborated "extensively" with frontline workers, and 54% collaborated "extensively" with the overall workforce.

Figure 11. Collaboration by employee level when developing a formal EHS strategy among mature EHS functions



Source: EY QUEST practice analysis.

EHS values are more frequently embedded into systems and processes by companies with high EHS maturity. Of those with the highest EHS maturity, 45% report that the EHS function is given ultimate authority, such as oversight and sign-off, in the design and development of major business or business initiatives with an EHS component, compared with just 22% of all companies in the survey.

Companies might consider developing an EHS strategy that incorporates perspectives from individuals throughout the company. This will help the EHS function serve the company by making sure it reflects the needs of all employees and types of risk. The strategy should ideally consider and include perspectives of third parties and contractors. A majority of high-EHS-maturity companies noted that their plan included a strong focus on continuous improvement. Accordingly, the strategy should be a living plan, ready to be updated to account for new risks and issues.

People and engagement

High-maturity EHS functions have frequently excelled in promoting EHS culture and values throughout the workforce. Achieving widespread engagement throughout the workforce empowers individuals within a company to participate in the implementation of EHS strategy and mitigation of EHS risks. The study has shown that companies have achieved broad EHS engagement by adopting specific practices related to EHS culture. These have been linked to lower employee turnover in the aggregate.

High-maturity EHS functions embed EHS competency requirements throughout the worker lifecycle via training and ongoing competency maintenance:

31%

of companies with high EHS maturity have EHS training in new employee orientation compared with just 17% for all companies in the survey.

85%

of companies with mature EHS functions report that EHS training is fully customized to role-specific risks, as opposed to being only partially or not at all customized. This compares with just over half (52%) of all companies in the survey offering fully customized EHS training.

The survey reveals that employee empowerment is a hallmark of a mature EHS function. Nearly all (87%) companies with high EHS maturity reported that their employees are "highly" encouraged to raise EHS concerns compared with 48% for all companies.

Mature EHS functions are frequently present throughout the company, and achieve broad engagement and buy-in throughout the development and governance of EHS policy:

- Among companies with the most mature EHS functions, 53% report that EHS policy decision-making is performed at all three levels of the company: locally in the business line or work unit, centrally in risk management, and independently by an internal audit group.

Companies should consider the cultural dimensions of the EHS function, since a workforce engaged with EHS can incorporate EHS policies in their personal routines. Mature EHS functions often manage the psychosocial risks of employees and empower them to report EHS risks. The mature EHS function is often present throughout the company, soliciting input to strategy and policy development, as well as training new employees. The results of a robust EHS culture add up to a number of benefits, both for the EHS function and the company. Nearly all (93%) survey respondents with high EHS maturity report the EHS function as a strategic enabler that is treated as a value driver for the business and is empowered to act autonomously.

Governance and leadership

An effective EHS function needs attention, resources and support from the highest levels of company leadership. Our research explored the extent to which executive attention is a central feature of high-maturity EHS functions.

Figure 12 shows how accountability for the EHS function was diffuse, with no single locus of accountability. For almost one-third of companies in the survey (31%), ultimate accountability for the EHS function rested with the CEO, followed by 21% with the COO and 11% with the governing board of the company. This pattern did not vary by EHS maturity. However, the extent that EHS performance was incentivized among company leadership was strongly linked to the overall EHS maturity score.

Figure 12. Ultimate accountability of EHS function by EHS maturity

	CEO	COO	Other C-level/ executive suite leadership	Divisional leadership	The overall board or governing body of the business	A subcommittee or working group on the board or governing body of the business	Independently/self-accountable
Overall	31%	21%	16%	12%	11%	6%	3%
Top third of maturity	33%	18%	18%	11%	13%	7%	1%
Middle third of maturity	31%	26%	16%	8%	12%	3%	4%
Lower third of maturity	29%	19%	13%	18%	9%	7%	4%

Source: EY QUEST practice analysis.

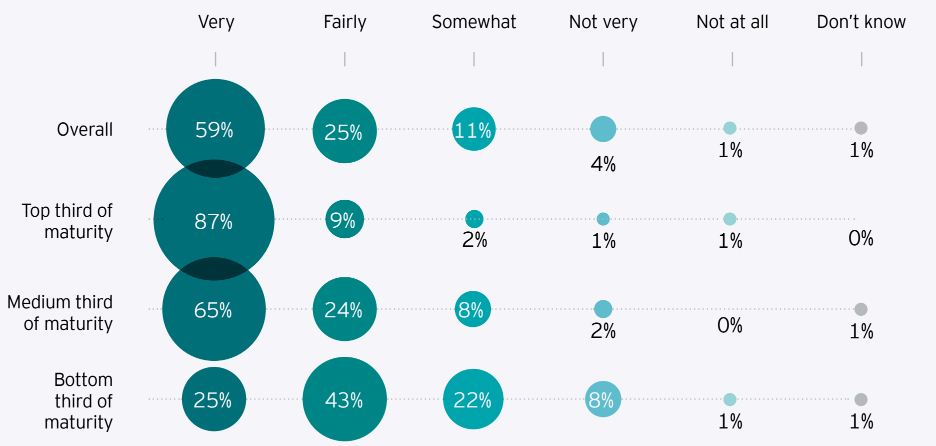
87%

of companies with the highest EHS maturity indicated that EHS performance was a "very" material factor in executive compensation.

45%

of companies where EHS performance is a very material factor in executive compensation, have the EHS leader reporting to the CEO (compared with 40% for all companies in the survey).

Figure 13. EHS performance as a material factor in executive compensation by EHS maturity



Source: EY QUEST practice analysis.

Merely having the EHS function accountable to the highest levels of the company did not differentiate companies in terms of maturity. Among companies where EHS performance is a very material factor in executive compensation, 45% report that the EHS leader reports to the CEO, compared with 40% for all companies in the survey. Companies where EHS performance was a "very" material factor in executive compensation reported that the EHS function is more likely to be prioritized relative to other areas of the business, be seen as a strategic enabler and have dedicated enterprise-wide EHS technology.

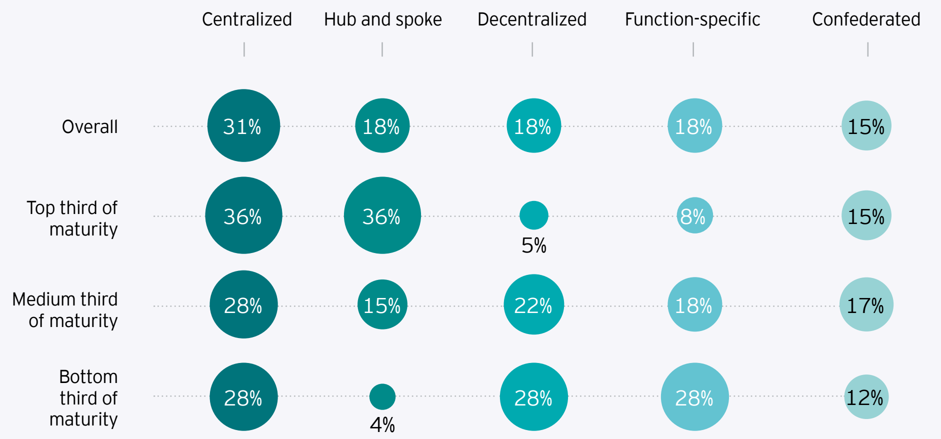
Making EHS performance a very material factor in executive compensation is associated with an increase in the number of corporate practices and attributes associated with high EHS maturity.

Systems and structures

The EHS function generally benefits from having a clearly defined structure that is suited to the company's specific needs. Ideally, the design of the EHS function should have a positive influence on the management of risk and control systems. Aside from the 31% of respondents who had a centralized design, there was no dominant form of EHS function design, with other models accounting for about a fifth of respondents each.

A centralized or function-specific model is a hallmark of EHS maturity, as it allows the EHS function to be present throughout the company, and through this, to be more adaptive and responsive to the diverse range of enterprise needs and risks.

Figure 14. EHS team model by EHS maturity



Source: EY QUEST practice analysis.

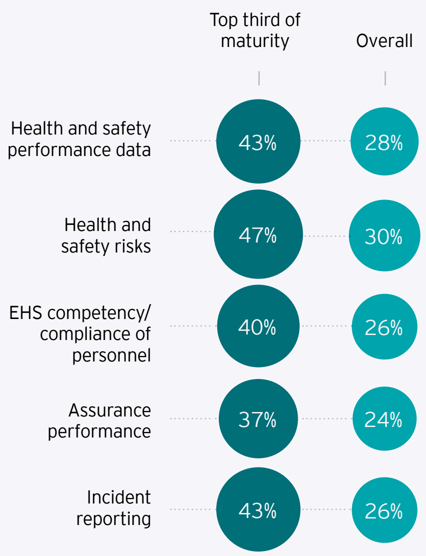
However, the design of the EHS function is a differentiator among mature companies. Nearly three-quarters of companies in the top third of maturity have a centralized (36%) or hub and spoke (36%) team model. The function-specific model is one in which EHS members are aligned to specific risks around the company. This adds further credence to the observation that a mature EHS function is present throughout the company and serves the organization by being adaptive and responsive to the diverse needs and risks of a large enterprise. Ultimately, the EHS function should be optimized for the specific needs of the company, but it is worth noting that there are viable alternatives to a centralized model that seem to incur no loss in status or performance.

Assurance and reporting

Companies with high EHS maturity track, report and process information effectively. EHS-mature companies are also the most likely to make reporting an extension of their three lines of defense strategy. Our findings suggests companies looking to increase EHS maturity make a broad range of information available throughout the company, including to frontline workers, as well as the audit committee and senior levels of the company beyond EHS personnel. Additionally, companies with mature EHS functions perform a greater range and variety of internal and external audits.

As Figure 15 shows, companies with mature EHS functions are more likely to report critical EHS information throughout the company, especially compared with all companies overall. Among companies with mature EHS functions, 47% report health and safety risks to all levels of the company compared with 30% of companies overall. Also among companies with mature EHS functions, 43% report health and safety performance data, as well as incident reports, to all levels of the company compared with 28% of companies overall. Although companies with mature EHS functions were far more likely to report key metrics, even among mature functions there was no single metric reported by at least a majority of companies. This represents a critical gap in helping the company, particularly the leadership, have an accurate view into the current state of EHS performance throughout the company.

Figure 15. Reporting of EHS information by category



Source: EY QUEST practice analysis.

Reporting and tracking are a pillar of the overall control strategy and extension of a mature EHS culture. Companies with mature EHS functions track far more EHS metrics and tend to tie them to EHS excellence:

- 60% of mature EHS functions track internal audit performance, and 60% use internal audit performance to recognize EHS excellence. Overall, 57% of companies in the survey are tracking internal audit performance, and less than half (47%) are using it to recognize EHS excellence.
- 57% of mature EHS functions track external EHS performance, and 55% use it to recognize EHS excellence. Overall, only 46% of companies in the survey are tracking external audit performance and using it to recognize EHS excellence.
- 58% of mature EHS functions track lost time injury frequency rate (LTIFR), and 61% use it to recognize EHS excellence. Overall, only 45% of companies are using LTIFR to recognize EHS excellence.
- 61% of mature EHS functions track year-over-year performance on EHS matters (e.g., continuous improvement), and 67% use this metric to recognize EHS excellence. Just over half of companies overall (52%) are tracking this internally, and 55% are using it to recognize to EHS excellence.

Risk and opportunity

EHS maturity is strongly associated with a more robust risk management function:

- 77% of companies with the highest EHS maturity are completing EHS functional audits compared with 44% of those with the lowest level of maturity and 61% of companies overall.
- 66% of companies with the highest EHS maturity are completing external audits for standard accreditation compared with just 36% of those with the lowest level of maturity and just over half (55%) of companies overall.
- Close to half (45%) of companies with the highest EHS maturity have considered "all of the" activity risks compared with 31% of companies overall and just 16% of those with the lowest level of maturity.

Compared with all companies, those with the most mature EHS functions are also slightly more likely to have EHS crisis playbooks (+10%), biannual emergency drills or rehearsals (+17%), and crisis simulations or games (+11%). For instance:

- Just over half of all surveyed companies have a business continuity plan (55%), and slightly under half (44%) have either annual emergency drills or rehearsals, or EHS crisis playbooks.
- Thirty-nine percent have biannual emergency drills or rehearsals, and slightly under a third (32%) have crisis simulations.

Overall, companies with the highest EHS maturity have more crisis management dimensions and are particularly distinguished by their breadth of risk management assets.

91%

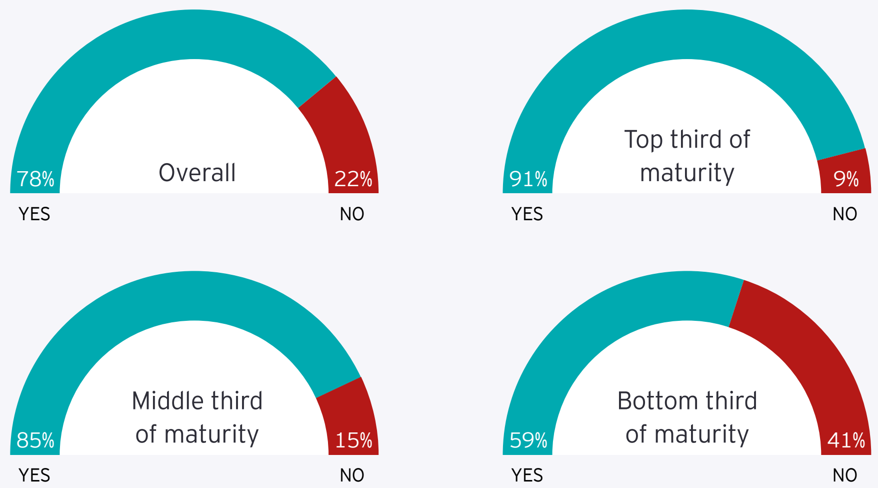
of companies with the highest EHS maturity have dedicated enterprise EHS technology compared with 59% of those with the lowest level of maturity.

Digital technology

EHS technology is central to EHS performance. Modern EHS technology allows companies to obtain a high-level view of the company across divisions and jurisdictions, as well as assisting in the identification of risks and status of controls.

The importance of this technology is affirmed by the survey findings and is one of the strongest findings of the study. Ninety-one percent of companies with the highest EHS maturity have dedicated enterprise EHS technology compared with 59% for companies with the lowest level of maturity. Dedicated EHS assets increase the ease by which a range of operations can be performed and are associated with increases in the confidence and quality of EHS data.

Figure 16. Dedicated EHS technology system by EHS maturity



Source: EY QUEST practice analysis.

Companies that have the highest EHS maturity report sizable differences in a wide range of technological assets. For instance:

- 58% of companies with the highest EHS maturity have integration with business-wide data systems or reporting compared with 26% with the lowest maturity and 39% of companies overall.
- 54% of companies with dedicated EHS technology have real-time data integration compared with 26% with the lowest maturity and 39% of responding companies overall.
- 54% of companies with dedicated EHS technology have automated processes (e.g., follow-ups for incidents or hazards) compared with 29% of companies with the lowest maturity and 41% for all companies in the survey.

Few survey respondents made strong endorsements of the ease of carrying out many of the core EHS digital functions:

- Only 25% of respondents described entering data as “very easy.” Similarly, 25% described studying and analyzing the business’s EHS data as being “very easy”, and fewer (19%) described looking up specific risks and hazards in the register as being “very easy.”
- One area of relative enthusiasm was accessing the business’s EHS data, reported by 37% of respondents as “very easy.”

It may come as no surprise that only 29% of companies indicated that they are “extremely confident” in their EHS data to give an accurate understanding of EHS performance at the company. However, this percentage nearly doubles to 56% among companies with the highest EHS maturity. Easily accessible and accurate data is critical to the effectiveness of an EHS operation, especially in sectors with high EHS risk. Overall, the survey indicates that there is a strong need to improve data quality and look for opportunities to integrate EHS technology across EHS programs. Improving integration, accessibility and accuracy of EHS data is central to this effort.

The responses for companies that have dedicated enterprise EHS technology or had high EHS maturity put into stark relief the benefits of having dedicated EHS technology:

- Eighty-two percent of companies with dedicated enterprise EHS technology reported being “generally” or “extremely confident” in their EHS technology to give them an accurate understanding of EHS performance at the company compared with 53% of those without this technology.

Figure 17. Ease of common EHS tech tasks by whether the business has a dedicated enterprise EHS technology system

Source: EY QUEST practice analysis.

CHAPTER 5

What now?

FOR CONSIDERATION:

What opportunities might you have to increase revenue, income and ultimately, market capitalization through improved EHS maturity?

The survey data findings indicate that EHS can be a key driver of financial, social and regulatory performance, and that practices leading to increased EHS maturity are within the reach of any enterprise.

EHS maturity progression benefits employees and companies alike. This means that failure to prioritize the EHS function is simultaneously irresponsible, risky and fiscally shortsighted. Armed with these facts, business leaders have an opportunity to leverage EHS for positive commercial, regulatory and social benefit.

The Global EY EHS Maturity Survey has shown how aspects of the levers are widely adopted or practiced among companies with the highest levels of EHS maturity. Here are some steps for companies seeking to elevate their EHS practices based on our research:

Develop a formal EHS strategy that includes input from all levels of the company

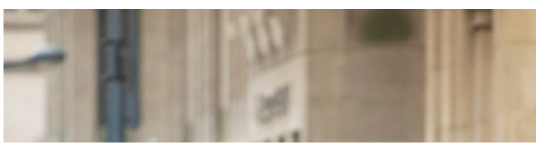
A majority of companies with high EHS maturity have a formal or advanced strategy that incorporates a range of perspectives from all levels of employees and takes into account the full range of risks at the company, including those arising from the management of contractors. The EHS strategy should be treated as a living entity. Companies with high EHS maturity were far more likely to note that the strategy has a strong focus on continuous improvement.

Secure leadership accountability with incentives

Nearly 90% of the most mature companies make EHS performance a "very" material factor in executive compensation. Companies where EHS performance was a very material factor in executive compensation tended to have dedicated EHS technology, enjoyed more authority, and reported being seen as a strategic enabler and value driver.

Reinforce the EHS function with a well-defined structure

High-maturity EHS functions are the most likely to have centralized or function-specific EHS models. While different models may work for specific companies, aligning EHS team members to function-specific risks is associated with increased policy consistency and customized risk-specific training.



Develop a strong EHS culture with engagement

High-maturity EHS functions have developed a culture of EHS ownership among employees. Companies with the highest level of maturity are the most likely to include employees at all levels of the company, including frontline workers, in EHS policy decision-making and have fully customized risk-specific training. They are also the most likely to include EHS training for all new employees and require EHS certification for frontline workers and managers alike.

Companies with high EHS maturity are also likely to manage psychosocial wellbeing and tie employee wellness to EHS success metrics. High-maturity EHS functions report that their employees are strongly encouraged to bring forward violations of EHS policy.

Monitor EHS risks with frequent audits and engagement

High-maturity EHS functions frequently audit themselves and pressure test EHS functions with biannual emergency drills or rehearsals and crisis simulations.

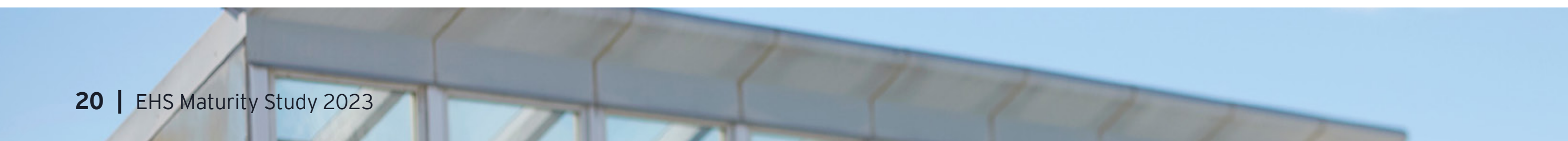
Use assurance and reporting to support a three lines of defense strategy

High-maturity EHS functions are the most likely to report critical EHS information, such as health and safety risks, EHS performance and incidents, to all levels of the company, including frontline workers and executives alike.

Invest in dedicated EHS technology

Nearly all companies with the highest EHS maturity have dedicated enterprise EHS technology. Companies with this technology report far greater ease in performing key tasks with EHS data, and more automated data gathering and processing. Companies with dedicated EHS technology have greater confidence in their company's EHS data to provide an accurate understanding of EHS performance in their businesses.

In closing, EY would like to thank the many professionals who responded to the survey and contributed their data to the report. This study would not have been possible without their time, insights and perspectives.



About this research

Statistical analysis

In August and September 2023, EY teams conducted a statistical analysis encompassing 11 measures of company performance and six measures of EHS performance to assess the relationship between EHS and company performance (e.g., financial, social and regulatory). This analysis was conducted on a comprehensive data set comprising 9,000 public companies headquartered in the Americas, EMEIA and Asia-Pacific regions with the largest market capitalization in the latest fiscal year. All data was sourced from Refinitiv. All financial measures were adjusted for inflation, and all outliers were excluded before analysis.

When assessing the relationship between each pair of variables, the analysis only included a subset of the 9,000 companies that had data for both variables. Where the number of companies with data availability was less than 30, the analysis was not conducted. The range of the number of companies included in assessing each relationship for all areas is 160 to 2,709 companies, with a median of 862 companies.

Only selected results from this analysis are presented in this report and are broadly representative of the more detailed analysis. For instance, among the 66 relationships between company performance and EHS performance assessed for the full data set of 9,000 companies (11 company measures multiplied by six EHS measures), more than 50% indicated that higher company performance is positively related to higher EHS performance.

The exact metrics used to measure financial, social, regulatory, and EHS performance were:

1. Financial performance:
    a. Growth in company revenue
    b. Growth in company profit
    c. Growth in company market value
    d. Growth in sales per employee (output per worker)
2. Regulatory performance:
    a. Environmental controversies
    b. EHS controversies
3. Social performance:
    a. Employee turnover
    b. Announced layoffs
    c. Employee turnover (excluding announced layoffs)
    d. Proportion of female employees
    e. Corporate responsibility awards
4. EHS performance:
    a. Measures relating to the "E" of ESG performance:
        i. Change to Scope 1 and 2 CO_2 equivalent emissions
        ii. Overall environmental pillar of ESG score
    b. "HS" of from EHS:
        i. Rating of employee health and safety policy
        ii. Rating of health and safety team
        iii. Total injury rate (per million hours worked)
        iv. Lost-time injury rate (per million hours worked)

Survey

The Global EY EHS Maturity Survey was sponsored by the EY Climate Change and Sustainability Services (CCaSS) group and carried out by the EY QUEST services group. Data was collected via a web survey directed to EHS professionals around the world. EY teams worked with with a market research company to assist with the identification and recruitment of survey respondents. Respondents were admitted to the web survey instrument if they were currently employed in the EHS function and held the titles of director/senior manager or executive/vice president/division head. The average age of a respondents was 42 years old indicating that they had about 20 years of professional experience. The survey was in the field from 4 August 2023 until 23 August 2023 and received 412 usable responses.

The maturity index used for the survey was adapted from the Each existing EHS feature was added to the index and then used to calculate a single score. The index had four components: ownership and alignment; strategy; EHS culture and compliance; and reporting and technology. The ownership and alignment, strategy, EHS culture and compliance components were each weighted to comprise 28.3% of the overall score, and reporting and technology was weighted to comprise 15% of the score. The index was rescaled to range from 0 to 100. To facilitate easy comparisons, the index was divided into thirds based on percentile, with “mature” companies being in the top third of EHS maturity.

Endnotes

1 See the About this research for full methodology.

2 Any modeling effort is only an approximate depiction of the economic forces it seeks to represent, and the economic model developed for this analysis is no exception; see endnote 16 for caveats and limitations.

3 Eighty-seven percent of companies with the highest EHS maturity indicated that EHS performance was a "very" material factor in executive compensation compared with 59% of respondents overall and just 25% with the lowest level of maturity.

4 Compared with all companies in the survey, mature EHS functions were twice as likely to have a function-specific team model that aligned EHS team members to work-unit-specific. Nearly three-quarters of companies in the top third of maturity have a centralized (36%) or function-specific (36%) EHS team model.

5 Ninety-one percent of companies with the highest EHS maturity have dedicated enterprise EHS technology. Companies with dedicated enterprise EHS technology report greater ease in performing many tasks involving EHS data, as well as greater confidence in the data.

6 Sixty-one percent of companies with a mature EHS function manage the psychosocial wellbeing of employees with the EHS function. Eighty-two percent of companies with the highest level of EHS maturity report that employees are "highly" encouraged to raise EHS issues and concerns compared with 47% of companies overall. Fifty-five percent of companies with mature EHS functions provide support if employees are physically or psychologically unfit for work compared with 39% of companies overall.

7 Seventy-seven percent of companies with the highest maturity are completing EHS functional audits compared with 44% in the lowest level of maturity and 61% for companies overall.

8 The "E" of the ESG score - ESG, or Environmental, Social, and Governance, is a framework for assessing a company's performance in three key areas: environmental responsibility, social impact and governance practices. Various metrics and criteria are used to evaluate a company's ESG performance, reflecting its commitment to sustainability and responsible business practices. In this analysis, this report has primarily focused on the "E" in ESG, which stands for the environmental pillar. This aspect measures a company's impact on natural systems, including air quality, land use, water resources and ecosystems. It assesses how well a company manages environmental risks and seizes opportunities to create long-term shareholder value. Refinitiv. (2023). Companies Screener. https://www.refinitiv.com/

9 Regulatory performance is measured by the number of years in the past decade during which a company had a controversy. A company is considered to have a controversy if it is under the media spotlight because of an issue. This data is sourced from Refinitiv. Refinitiv. (2023). Companies Screener. https://www.refinitiv.com/

10 Revenue is from a company's operating activities after deducting any sales adjustments and their equivalents. All financial metrics used in this analysis are adjusted for inflation. Refinitiv. (2023). Companies Screener. https://www.refinitiv.com/

11 Employee turnover rate is the percentage of employee turnover, including employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract. Refinitiv. (2023). Companies Screener. https://www.refinitiv.com/

12 EHS controversies include significant controversies related to employee health and safety, human rights, child labor, public health, customer health and safety, product quality, consumer complaints and the environment. Refinitiv. (2023). Companies Screener. https://www.refinitiv.com/

13 Total injury rate is the total number of injuries and fatalities, including no-lost-time injuries, relative to one million hours worked. Refinitiv. (2023). Companies Screener. https://www.refinitiv.com/

14 Announced layoff rate is the total number of announced layoffs by the company divided by the total number of employees. Refinitiv. (2023). Companies Screener. https://www.refinitiv.com/

15 An "above average" strength of a relationship indicates that the relationship between variables for a specific subset of companies by area (Americas, EMEIA, Asia-Pacific) or industry (life sciences and wellness, advanced manufacturing and mobility, etc.) is significantly higher than the relationship for all companies in the analysis. Similarly, a "below average" strength of a relationship indicates that the relationship between variables for a specific subset of companies by area or industry is significantly lower than the relationship for all companies in the analysis.

16 This analysis included more industry sectors that are not shown in this report. The analysis included the following industry sectors: advanced manufacturing and mobility, consumer, energy and resources, financial services, government and infrastructure, life sciences and wellness, private equity, technology, media, and telecommunications, professional service and all industries.

17 Specifically, a high-EHS-performing company is defined as having improved its EHS metrics by one standard deviation above the mean or more.

18 Caveats and limitations:

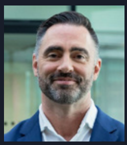
Although various limitations and caveats might be listed, several are particularly noteworthy:

- Estimates are limited by available public information. The analysis relies on information reported by public companies and other publicly available sources (i.e., Refinitiv). The analysis did not attempt to verify or validate this information using sources other than those described in the About this research section.
- Correlation does not imply causation. This analysis is based on correlations. While correlation provides valuable insights into the statistical relationship between two variables, it is crucial to acknowledge that correlation does not establish causation. Just because two variables are correlated does not necessarily mean that changes in one variable directly cause changes in the other. There could be underlying confounding factors or a third variable influencing both.
- Analysis provides suggested relationships. Univariate linear regressions and correlations serve as preliminary steps in exploring the relationship between variables. However, to draw meaningful and accurate conclusions, researchers should employ more sophisticated analyses that include control variables and consider potential confounding factors to avoid misleading interpretations and to better understand the underlying relationships. Results should be viewed as suggestive and illustrative.

19 An additive index was used to assess the relative maturity of companies responding to the survey. The presence of each of the following components contributed to the companies' index value. The components were grouped as listed below and weighted accordingly:

- Ownership and alignment (28.3% of index):
  - The EHS function is accountable to the overall board or governing body of the business.
  - The most senior leader of the EHS function has the title of chief.
  - The leader of the EHS function at your business reports to board or governing body of the business.
  - The EHS performance is a "very" material factor in executive compensation.
  - The EHS function is "given ultimate authority" or "extensively incorporated" in major major businesses and initiatives that have an EHS dimension.
  - The EHS function has "above average prioritization" or is "highly prioritized" relative to other areas of the business.
- Strategy (28.3% of index):
  - The company has a self-rated "advanced" EHS strategy.
  - Frontline workers, senior management, contractors and third parties, and overall workforce are given "close collaboration" or "extensive collaboration" in the course of the strategy's development.
  - The EHS function is self-rated as being a "strategic enabler" by the survey respondent.
- The EHS culture and compliance (28.3% of index):
  - All employees have EHS training present in new employee training and orientation.
  - EHS training is fully customized to role-specific risks.
  - The EHS function is given complete add of after development of EHS policies and procedures.
  - EHS information and training (e.g., hotline, information, training) is available to workers.
  - There is evidence of EHS engagement (EHS recognition, wellbeing initiatives, etc.).
  - Employees are strongly encouraged to raise issues and concerns regarding compliance with EHS policy.
  - The EHS function has full stop-work authority at the company.
  - Application of EHS procedures at different units is 'generally' or 'very consistent'.
- Reporting and technology (15% of index):
  - Data about EHS matters is automatically collected.
  - Respondent is "generally" or "extremely" confident in EHS data to give an accurate understanding of EHS performance.
  - Major digital activities are primarily rated as "very easy".
  - The corporate Corporate and operational EHS risk register is comprehensive (e.g., includes physical and psychosocial risks, as well as those arising from management of third parties).
  - The business has a "dedicated" enterprise EHS technology system.
  - The business has robust EHS technology with automation and integration.
  - The business practices a wide range of voluntary audits (e.g., frontline, functional, independent).

Contacts



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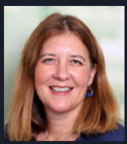

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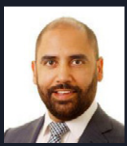

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ED None