

Mitigating Catastrophic Incidents

by George Pilko

The CEO of a major energy company recently told me over lunch, “The cost of any major incident in our business is \$1 billion plus.”

His statement is no exaggeration. The “cost” also includes personal impacts on employees and their families, as well as tarnished corporate reputations. In many cases, companies never fully recover from a major incident.

Without question, in today’s environment, corporate officers and boards are acutely aware of the downsides of a catastrophic event. They understand the importance of reducing the probability of these events. But do they have the proper elements in-place to do so?

THE PROBLEM

The most common strategy for managing operational/EHS risks involves developing and implementing some form of structured management system and then auditing regularly to ensure compliance. OEMS-type management systems and their related audits, which are an important part of the plan-do-check-act cycle, are essential. But they may not always adequately assess the bigger picture.

Equally important, we frequently see companies succumb to “management by audits;” that is, their operations organization spends the majority of its time and resources: (a) preparing for internal and external audits; (b) being audited; (c) handling action items generated by the audits; and (d) reporting on the status of these action items. This approach is the equivalent of driving on a major highway while only looking in the rearview mirror — it might work, but it’s clearly not advisable.

In practice, the findings of many audits consist of long lists of “symptoms” that the plants are obliged to fix. Often these (or related) symptoms reappear in subsequent audits because most audits do not deal with systemic issues, which are the fundamental cause of these symptoms. Surprisingly, if you ask plant managers or corporate staff what their organization does to manage risks, they most often point to their management system and their audit-related activities.

In many companies, facility leadership teams view audits as something that is being done to the plant, rather than as a meaningful activity in which they are fully engaged. In some cases, plant leadership will even go so far as to say that frequent

and far-reaching audits actually hamper their efforts toward achieving safe and reliable operations.

In other words, at the plant level, upcoming audits are anticipated with the same enthusiasm as a root canal ... and for good reason.

The reality is that most management systems, and the audits conducted on those systems, are aimed at a subset of what is necessary for effectively mitigating the company’s risks.

In spite of all the time and resources expended on well-meaning efforts, if you ask a plant manager if his/her facility has robust processes in-place to systematically identify, prioritize and mitigate their operational/EHS risks, the answers tend to be less than reassuring.

SOLUTION: DEVELOP A HOLISTIC APPROACH TO RISK

“Begin with the end in mind” was one of author Steven Covey’s well-known “7 Habits.” It is clearly applicable for managing risks as well. Most downstream executives would agree that their facilities should be continually reducing the probability of a major incident. In other words, leadership teams should be working backward – from the “end point” that their facilities will have no major incidents – to decide what needs to be done to accomplish this objective. Their staffs should then execute that plan.

Logic dictates that companies take a holistic approach to managing risks. Given that the root causes of catastrophic incidents typically involve some combination of leadership, culture and competency breakdowns, a facility or business must effectively address each of these issues in order to minimize the probability of a major event. Unfortunately, the individuals conducting audits often lack the perspective and background to evaluate leadership, culture and competence. And even if they did, those types of issues are normally outside the scope of most audits.

A higher level external review – using senior advisors who are well-versed in all aspects of downstream operations – can be very effective in developing deeper insights into corporate and local leadership, culture, competency and related factors.



The head of manufacturing for a global chemical company requires each of his sites to clearly articulate their biggest risk in a single sentence. A simple request, but very difficult to do in practice. How many facility managers can look across the spectrum of the risks facing their operation and boil them down with confidence into a single sentence? Not many — and the deluge of detailed audit reports doesn't help to provide clarity.

PROVIDING FACILITIES WITH THE RIGHT SUPPORT

We believe that most sites face impediments caused by a combination of the following factors:

- Blind spots, which are, by definition, not known but could be addressed once identified
- A lack of focus given the number of detailed internal and external audits focused on “symptoms,” with numerous efforts to attack the trivial
- The error of overlooking the importance of leadership, culture and competence in mitigating risks
- Well-meaning, but misdirected, “help” from corporate.

Plants can dramatically reduce their risks if they are provided support in identifying their blind spots as well as internalizing a process to systematically identify, prioritize and mitigate their operational/EHS risks on an ongoing basis. Plants should be encouraged to look at their risks holistically instead of in the tightly defined “boxes” used by most audits. Action plans would focus on systemic issues and result in reduced risks instead of simply “fixing” the myriad of symptoms identified by most audits.

Line executives and corporate staff can be valuable catalysts in ensuring that their facilities are laser-focused on the right

priorities. Too often, however, corporate staff is guilty of distracting facility management with too many initiatives, each of which may be well-intended but in aggregate are counterproductive. Corporate, unknowingly, is often the prime culprit in contributing to a pre-occupation with symptoms that are not mission critical in reducing the probability of catastrophic events.

Previous Grey Papers have described the process we use with clients to shift their focus from “management by audit” to aggressively managing risks. [Click here](#) for our recent **8IGHT DRIVERS®** Grey Paper. Our team has identified 70+ elements essential for effectively managing operational risks and what constitutes “best practice” for each element. The **8IGHT DRIVERS®** approach, combined with senior advisors, can be invaluable to a facility in uncovering blind spots, then developing action steps that materially reduce risks. See graphic below.

During the past 12 months, one of our major energy clients cut their process safety events and personal injury rates **in half** by using this process. This approach is not magic — instead it's simply a combination of experienced senior advisors with unique intellectual property and a 35+ year track record of delivering value to clients.

Why not start now?

If you would like more information on the **8IGHT DRIVERS® APPROACH** or any of Pilko & Associates services, please contact:

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