

QUESTIONS THAT BOARDS SHOULD ASK

By George Pilko

Operational / EHS Risks require in-depth questioning of Corporate Officers. Here are a few questions to get started.

Directors of energy / chemical companies are well aware of the financial and reputational impacts of catastrophic incidents. These incidents can be devastating even for the largest companies and occur regardless of the size or past reputation of the firm.

Yet despite this awareness, it is common for directors to lack detailed understanding of the company's approach for mitigating these risks. One reason is that boards often fail to ask penetrating questions that can provide insight into the company's management of catastrophic Operational / EHS Risks. While having a board member or members with relevant operational experience is always preferable, any director can ask probing questions, then evaluate the quality of the responses.

Here are basic questions for boards to ask and some background on how best to evaluate responses from management. If management teams scramble to provide credible answers, serious Gaps likely exist that need to be addressed.

“How are Operational / EHS Risks managed?”

Simple question. When we ask this question of corporate officers in the Americas, Europe or Asia, the immediate answers typically center on a combination of management systems and audits.

In many – if not most – companies, two fundamental flaws with these answers exist:

First, management systems often provide false assurance that what executives at headquarters intend to happen in the field – and what they believe actually happens in the field – actually match reality. Anyone with experience in operations understands that what really matters is what happens at 2 a.m. on a Saturday morning when management isn't looking. Often, the disconnects between intentions and reality are appalling.

These disconnects are the primary reason that executives often ask in the aftermath of a major incident, “How did this happen? We have policies / procedures to prevent this!”

The problem, of course, is that too many Energy and Chemical companies lack the Operational Discipline to flawlessly execute their policies and procedures. Hence Corporate Officers and Boards believe their company's major Risks are under control yet reality is quite different.

Second, EHS-related audits done at most companies are ineffective. A CEO for one of our major clients claims that “90 percent of audits are a waste of resources.”

Why is this so? Most audits focus on identifying symptoms that need to be fixed, but they do not address systemic issues that are typically the root causes of catastrophic incidents. As a result, plant organizations scramble to fix symptoms identified during audits, while overlooking the need to focus on Identifying; Prioritizing; then aggressively Mitigating Operational / EHS Risks.

Where do you want your organization focused?

“How does our process stack up to rapidly evolving industry best practices?”

Is it clear that your company is aware of evolving Industry best practices for aggressively managing Operational / EHS Risks? Does company leadership understand what gaps currently exist between their existing practices and industry Best Practices? Is a plan in-place to close these gaps over time?

Keep in mind that the root cause of 70 percent of catastrophic incidents are “soft” risks caused by gaps or shortcomings in Leadership, Culture, Competence and Governance. As a result, leading companies are focused on both “hard” and “soft” risks with the understanding that a holistic approach to managing risks is required.

“How do we track our progress over time?”

Most companies systematically track leading and lagging indicators in order to judge their progress in managing Operational / EHS Risks. Tracking these indicators is necessary but clearly not sufficient. During the past two to three years, clients have increasingly commented that their metrics have improved BUT the frequency and severity of major incidents remain unchanged.



The missing piece to the puzzle is that these companies fail to step back and holistically evaluate how effectively their organization approaches Operational / EHS Risks – from the board room to the control room – and make continuous improvements over time.

Even “cutting edge” approaches to Risk Management get stale over time and need to be refreshed and updated. A warning sign is that a company’s fundamental approach to Operational / EHS Risks has been basically unchanged for the past five years.

A different approach

We are typically retained by corporate officers, at the urging of their board, in the aftermath of a major incident. Our role is to assess how a company addresses Operational / EHS Risks on a holistic basis; identify Opportunities for Improvement; then work collaboratively to develop Action Plans that fit the company’s culture. (see [8IGHT DRIVERS® Grey Paper](#)).

This approach is fundamentally different from “yet another audit,” which simply buries plant organizations with more “to do’s.” Instead, we help organizations focus on their highest priorities and ensure that they are tackling these priorities with the right resources.

A better approach is clearly not to wait for a major incident to take action.

Having confidence that you are working on the right things and have a clear plan can help everyone sleep a bit better. Sound attractive?

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about Pilko

Pilko & Associates is the No.1 advisor to energy and chemical companies on Operational and Environmental, Health & Safety (EHS) Risks during ongoing operations as well as acquisitions, mergers, joint ventures and divestitures.

Since 1980, we have served energy and chemical clients in more than 59 countries, advising on over \$600 billion in transactions and ongoing operations. In addition, we have developed an excellent reputation advising companies on the integration of new or improvement of existing operations and the governance of Operational and Environmental Risks. Our global experience, combined with extensive knowledge and capabilities, is invaluable to firms in mitigating their most significant Operational and EHS risks and liabilities, thereby maximizing value and optimizing business performance.

For more information about our services and capabilities, please visit us at www.pilko.com.