

## OPERATIONAL/EHS RISK CONTROL

### The Problem

Catastrophic incidents have had a devastating impact on selected energy and chemical companies for decades—think Hooker Chemical, Union Carbide, BP, PG&E, etc. In addition, many companies have had an ongoing series of Operational/EHS incidents which are costly in terms of human suffering; financial impact; and corporate reputation. Even industry stalwarts such as DuPont and ExxonMobil have had high profile incidents recently.

Surprisingly, most companies address these risks as if they were playing “Whack a Mole” at a local arcade. They bounce from initiative to initiative or one set of audit findings to the next, without a clear focus or sense of purpose. Lots of resources get thrown at Operational/EHS issues — yet the efforts tend to be focused in silos and often not on the highest risks facing the company.

We regularly ask facility leaders simply, straight forward questions such as:

- What are your 2-3 highest Operational/EHS Risks?
- What are you doing to mitigate these Risks?
- How do you objectively track your improvement over time in addressing your Risks?

In most cases, the answers we get are vague and not reassuring — particularly given what’s at stake. But that’s not surprising when you consider that a major chemical plant or refinery will often have >50 initiatives under way simultaneously, all aimed at Operational/EHS efforts. A classic case of “too many priorities mean you have no priorities.”

If we ask these questions at the Business level or the Corporate level, the answers are frequently even more vague and less reassuring. Ideally, Boards would demand effective governance of Operational/EHS issues, but too often Boards lack the background or competency to provide effective oversight.

If you and I were the sole owners of a chemical or energy company, we would ensure that the answers to the questions above were clear at all levels of the organization — from the facility level to the board of directors. Amazingly, this instance is rare in today’s chemical/energy industries.

### The Dilemma

Let’s examine the plight of facility managers who are subject to —

- Corporate initiatives coming from HQ EHS and/or Operational Excellence groups, which increase in number over time.
- Board-mandated audits.
- Industry organization audits (API, AFPM, ACC in the U.S. or equivalents elsewhere).
- Constantly changing regulatory requirements.
- Local, state/provincial and federal audits.
- Insurance underwriter audits.
- Budget constraints which can be unrelated to the inherent risks facing a business.
- And many similar factors that take time and focus.

Although each of these efforts is well meaning individually, add them up and it’s no wonder that facility leadership teams are distracted from systematically identifying, prioritizing, then aggressively mitigating their Operational/EHS Risks. It is also not surprising that industry associations report a recent uptick in incidents despite all the efforts to prevent them.

### A Better Mousetrap

How would we manage differently, if you and I were the owners? My guess is that we would agree on ten requirements to protect our people and our investment.

**First**, we would select facility managers who were superb leaders, adept at getting their organizations to systematically identify, prioritize, and then aggressively mitigate their Operational/EHS Risks.

**Second**, we would periodically provide support to the sites in uncovering blind spots in how they approach Operational/EHS Risks which, by definition, are not visible to the site leadership team.



**Third**, we would provide tools so that the sites could objectively track their progress in how effectively their risk management efforts evolve over time.

**Fourth**, we would ensure that line executives and Board members who visited sites were effective in engaging site personnel about their risk management efforts.

**Fifth**, we would “roll up” the Operational/EHS Risks within each business on a consistent basis, so that business leaders had a clear view of the risks they are facing and how these risks are being mitigated. Ditto on a company-wide basis.

**Sixth**, outside directors would be briefed at least twice a year on the major Operational/EHS Risks and what was being done to mitigate these risks.

**Seventh**, we would ensure HQ staff groups focused on EHS and Operational Excellence activities would be tasked with supporting the sites on risk mitigation efforts instead of dreaming up new initiatives which, although well meaning, can distract sites from their primary objectives of safe, reliable and efficient operations.

**Eighth**, we would increase the effectiveness of internal audits by reducing the frequency of these audits as well as ensure that any action items had meaningful impacts on Operational/EHS Risks of the sites.

**Ninth**, we would press our insurance underwriters to rely on our risk management efforts in lieu of conducting separate insurance audits.

**Tenth**, we would use the results of our ongoing Operational/EHS efforts to satisfy the SEC requirements for reviewing risk profiles at least annually with outside directors.

That’s it — ten simple approaches that reliably drive improved performance and reduce the bureaucratic overhead of our business. Sounds simple. Let’s do it!

Call us today at 713-357-1000 to learn more about Operational/EHS Risk Control. Or visit our website at [www.pilko.com](http://www.pilko.com).

GEORGE PILKO  
[george@pilko.com](mailto:george@pilko.com)  
W +1 713.357.1000

### about Pilko

Pilko & Associates is the No.1 advisor to energy and chemical companies on Operational / 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 / EHS Risks. Our global experience, combined with extensive knowledge and capabilities, is invaluable to firms in mitigating their most significant Operational / EHS Risks and liabilities, thereby maximizing value and optimizing business