

# GREY PAPER

## insights



Leadership Part Two: Defining acceptable risk levels and providing the right resources for mitigation



### Pilko & Associates Grey Paper

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## INTRODUCTION

Leadership plays a significant role in controlling Operational and EHS Risk. Great leadership creates the right environment for employees and contractors to do their very best work, while encouraging them to speak up regarding issues and risks they see that require attention.

The very best leaders see their role as developing the next generation of great leaders. Leadership is critical at all levels in the organization to significantly contribute to enterprise and site performance and gaining control of risk.

This Grey Paper is part two of a four-part Leadership series.

## THE IMPORTANCE OF LEADERSHIP

Leadership matters.

No one wants to see their site in the local or national news due to a significant incident or event that impacted people, the environment or the community.

Leaders must take charge and set the tone for understanding, mitigating and controlling Operational and EHS Risk.

## ACCEPTABLE RISK LEVELS AND TOLERANCE

Leaders are tasked with defining risk tolerance—tolerances that are understood from the Board of Directors to the shop floor. Misalignment can easily lead to taking higher risk than acceptable by senior management. Conversely, if acceptable risk tolerance is not understood, a risk-averse culture can result in resource allocation to lower priority items.

More often than not, acceptable risk is defined at the corporate level, composed of probability and consequence matrices. A challenge for every site is to communicate and operationalize corporate risk guidance within an

environment of limited resource and experience with the risks and associated probabilities.

Leaders need to ensure a consistent prioritization process to focus resources on highest risks first. Doing so requires consistent, experienced groups judging risks on an equal basis. Those who have experienced a particular risk themselves have a tendency to rate that risk with higher probability than one that they have not experienced. To avoid this behavior, Risk Ranking groups should include individuals with broad experience in engineering, operations and process safety as a starting point.

With a clearly identified risk tolerance level and a well-functioning prioritization process for current and future identified risks, great leaders support the control of Operational and EHS Risk by providing necessary resources to mitigate identified, highest priority risks first.

Those resources include:

- Dollars for capital investment and operating expenses
- People with the right experience and competence
- Time for staff to complete work
- Recognition for incidents that don't happen

## FINANCIAL RESOURCES

Leaders ensure adequate capital and operating expense dollars are available in site budgets to systematically control risk. But if this step is the only one staff takes, a site may have lower risks but not be a viable business. Risk control needs to be balanced with an investment strategy that also allows money to be invested into growth opportunities.

Second, good leaders make sure budgeting processes don't send the wrong message to staff. Because leaders are expected to continuously find efficiencies in the way that work is completed, operating and maintenance budgets are constantly challenged and reduced. For example, some companies have an expectation that operating budgets should be reduced by 2% or more each

year while covering inflation. Staff may perceive a focus on reducing costs as a signal to not complete necessary barrier management activities. They then may make the choice to not manage barriers, which may result in risk increasing above the level deemed acceptable by senior management.

A second, real-world example deals with pipe coating for exterior corrosion protection. A refinery had a number of lines that ran over saltwater and were exposed to bird activity. The exterior of the piping required protection from the salt air and bird excrement. The refinery had a program for ensuring coverage and integrity for all pipes once every 10 years.

Some years ago, due to budget pressures, a maintenance individual chose to reduce the pipe protection program for a year. Then, with continued cost reduction pressure, the program was reduced the following year. The maintenance person did not understand the increased risk to the refinery and over time the coating failed and did not properly protect the pipes. This reduction in barrier management activities was done without notifying senior management of the potential of increased risk. When senior management became aware of the risk management gap, they implemented an extensive inspection program. It was found that due to the lack of proper coating, over the years, the piping had significant integrity issues and millions of dollars were spent to repair and replace the piping.

In the end, the site knows that decisions to reduce barrier management activities increase risk. And that such decisions need to be made at the right level versus just cutting the work due to budget pressures.

Great leaders implement a long term, strategic approach to the budgeting process so that annual budget pressures don't impact risk management decisions made within the organization.

## **PEOPLE RESOURCES**

Leaders support risk control objectives by providing the correct personnel resources to the task. Not everyone understands risks in a consistent manner—risk being defined as risk matrix of intersections of probability and actual and potential quantified consequences.

Staff members need proper training and experience to be members of the risk ranking and prioritization process. Engineers must know the effectiveness of risk mitigation barriers to ensure proper barriers are identified. People who participate in Process Hazard Analysis revalidation, or for new project activities, need to have enough experience to think about a large number of possible scenarios even if some seem like a low probability. And high consequence activities must be considered - and effective barriers put in place - if the risk is deemed above an acceptable risk tolerance.

## **TIME RESOURCE**

Good leaders provide adequate time to complete risk management work. Even in the presence of competing priorities for plant staff, the leader's role is to prioritize the pace of improvement activities and ensure that base activities are all being completed. It takes the majority, over 90% of a plant's staff time to ensure the base operation of a site is effectively managed, including completion of barrier management and risk mitigation activities.

Poor leadership overloads staff with more visible improvement activities as they seek rewards. Great leaders ensure people have the time needed to focus on base operation and risk management duties first.

## **CELEBRATING SUCCESS**

It seems counterintuitive that celebration increases risk control success. It's true. Leaders need to celebrate incidents that don't happen.

Today's site performance requirements push people and equipment to the limit. Yet, even in these high-pressure environments, incidents often don't happen due to proper prevention investment and activities. These "non-events" are cause for celebration by leadership.

Unfortunately incident avoidance is rarely recognized or celebrated, whereas the aftermath of catastrophic incidents is always addressed.

It's easy to see organizational effort in the wake of a catastrophic incident - seeing everyone working together to recover and return the site to normal operations. Once the incident is behind the site and organization, there is celebration, which can, unfortunately reinforce wrong behaviors and performance.

Good leaders focus on prevention versus recovery. They take the time to recognize people for keeping barriers in place to prevent incidents, or celebrate turning Process Hazard Analysis into increased safety and risk control.

Such celebration helps people understand that risk control and prevention of incidents is the expectation of leaders, the whole organization and the community.

## GETTING STARTED ON BETTER LEADERSHIP

Great leaders continually seek new perspective, best practices and advisory in areas of importance. Great leaders never rest on the past or become complacent with the current state of organizations, activities and methods for increasing control of Operational and EHS Risk.

Energy and chemical leaders have consistently relied on Pilko & Associates to increase and accelerate achieving control of Operational and EHS Risk. These leaders have depended upon the experience, skill, proven Best Practices and 8IGHT DRIVERS® methodology to find, prioritize and eliminate "hard" and "soft" risks within their organizations and companies.

Would it be valuable to have the ability to see and mitigate the next incident before it happens? Is it possible to get beyond known, easy to measure risks, to control hidden or "soft" risks that endanger balance sheets and reputations?

Pilko & Associates' clients agree that it is valuable to achieve these outcomes.

Put the Pilko team to work in your organization, helping leaders become more aware of how to recognize risks within their organizations and sites. Your next unplanned incident may just be around the corner!

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## ABOUT PILKO & ASSOCIATES

Pilko & Associates provides industry-focused advisory services in three core areas – Transactions, Operational Excellence and Governance & Assurance – to enhance value for our clients and their stakeholders in the chemical and energy sectors. We deliver innovative solutions for publicly and privately-held companies, helping them to identify, understand and manage their Operational Risk and Environmental, Health & Safety needs. For more information, visit [www.pilko.com](http://www.pilko.com).

