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Five risk management flaws that lead to decreased risk control and how to overcome them.



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Most companies in the chemical and energy industry have established risk management processes, but still struggle to improve risk control, resulting in significant events that hurt people, profits and reputation. While establishing a solid risk management process is essential to improved risk control, it is not enough. Any one of these five flaws in risk management processes can lead to a reduction of risk control and undesirable events.

5. Disconnecting Risk Identification and Prioritization from Annual Budget Process

In many cases, higher priority technical risks require significant capital for mitigation, and higher priority soft risks require allocation of operating resources. Without a structured process to effectively prioritize these risks in line with the budget process, with clear, step-wise communications from the work group level up to the board of directors, there will be delay and poorly executed mitigation and reduced risk control.

These step-wise formal communications from layer to layer in the organization must be done in line with the annual budget cycle, so that improving risk control is assured as a key consideration.

4. Failure to Recognize and Address Hazards

One of the leading causes of accidents is a lack of awareness of hazards associated with discrete tasks. This is a result of inexperience, particularly with non-routine tasks, where an individual(s) involved fails to recognize what might go wrong, or on routine tasks when experienced individuals grow complacent and comfortable, deviating from established practices.

Almost every company now undertakes pre-task job hazard analyses to address this problem. Unfortunately, all too often this becomes a “check the box” exercise, without the true careful pre-thought that is required.

The key to improved risk control is having strong employee engagement around risk, with best-in-class checks and balances in place to ensure that all employees have a healthy respect and unease for hazards inherent to their workplace.

3. Inconsistent Levels of Risk Tolerance in the Organization

There are too many instances where employees and/or leadership take on risks that a company finds unacceptable. This occurs due to pressures for production/profit, or a sense of invulnerability due to inexperience or overconfidence. Gaining a high degree of risk control in this area is particularly challenging, as every individual associated with operations must be fully aware of the risks that they choose to take, and the actions required to mitigate risk.

This can be overcome through a high level of risk management engagement at all levels in the organization, including training and workshops geared to heighten self-awareness of personal risk tolerance and an improved understanding of company expectations. Such training must include a very clear statement of the company's risk tolerance with clear accountability expectations for each employee.

2. Inadequate Engagement at All Levels in the Organization

Many companies remain committed to identifying, prioritizing, and mitigating risks, particularly through the hazard analysis process. However, without an ongoing process to identify and address hazards on a continuous basis, with clear communication throughout the organization, there are missed opportunities, frustration, confusion, and a reduction of risk control.

Employees should be encouraged to identify, communicate,

and where possible, directly address hazards on a continuous basis. When hazards are communicated, it is best practice for plant/refinery leadership to let employees know that their input is important and valued, to inform them of how revealed hazards have been prioritized, and what, if anything, will be done to address the hazard.

It is similarly important to help an organization to understand that not all risks will be addressed by leadership. It is important to focus on the highest priority risks and to count on employees to effectively manage the lower priority risks through high hazard awareness, low risk tolerance, and safe, effective execution. Employees should understand that every risk cannot be addressed simultaneously, and should appreciate honest, caring responses when hazards are identified. Employees appreciate knowing how higher priority risks are being addressed and will stimulate great ideas to help with effective mitigation.

Effective incident investigations and corrective action are also a very important aspect of engagement. Incidents with potential for high consequences need to be addressed thoughtfully, not only at the location where the incident occurred, but also at other locations with potential for a similar incident.

1. No Ongoing Process to Identify and Address Soft Risks

There are cases where outstanding risk management process are in place, except for an ongoing methodology to assess leadership, culture, and competency within the organization. If this key element is missing, there is a high probability of reduced risk control through slippage in practices, particularly when there is a change in leadership or turnover of personnel.

Left unchecked, the practices slippage will spread and the level of risk assumed by the organization rapidly increase.

Tragically, without the soft risk assessment, increased risk is frequently not recognized until there is a catastrophic event.

Some companies seek to address this through internal audit protocols. While an effective measure, plants have learned over the years how to become audit-proof for internal audits, and a “gotcha”-driven approach creates an environment where discovery and learning are far more difficult. We’ve also seen internal audits cause significant disruption and tie up a lot of resources.

Leading, best-in-class companies recognize internal blind spots exist and employ third-party assessments to find them. It is critical to ensure that any third-party assessment include a broad, holistic approach to evaluating operational and EHS risk management and control practices at every level in the organization, with an eye toward Governance, Leadership, Culture, and Competency in addition to the more traditional elements of a risk management process.

Conclusions

Our industry has made a lot of progress in developing process safety management, yet catastrophic events continue to occur on an all too frequent basis. Completing meaningful steps to address each of these five flaws leads to improved risk control, which in turn will deliver rapid, sustainable improvement in EHS/Operational results.

Where should you get started?

Many companies have accelerated improved risk control by beginning with a third-party assessment of operational risk practices, followed by a thoughtful plan to futureproof operations, and effective implementation of those plans.

While evaluating those third party advisors, focus on the value that they deliver, not necessarily the cost. Low-cost advisors that fail to identify critical blind spots and fail to deliver improved risk control will ultimately be the high-cost



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choice, through experiencing easily avoidable incidents.

Once the third-party advisor has been selected, ensure that they have the opportunity to work with the best and brightest in the company. A holistic, experienced third-party view, combined with a partnership with the company's strongest employees will lead to remarkable results.

Consider Pilko & Associates

We understand that you have many options available to you for solving the five risk management flaws. Perhaps you should consider Pilko & Associates.

Pilko is the number one advisor to energy and chemical companies on operations/EHS and transaction risk control for ongoing operations as well as acquisitions, mergers, joint ventures and divestitures.

We have worked with the largest energy and chemical clients in over 59 countries, advising on over \$600 billion in transactions and ongoing operational value.

Only Pilko & Associates addresses each of the obstacles and opportunities described, bringing greater control of operations/EHS and transaction risk.

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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.



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