GREY PAPER
insights

pilko

360° of increased operational and EHS
risk control for energy and chemical companies.

Pilko & Associates Grey Paper

Information and insight at your fingertips. Simple, yet profound steps you can take right now to increase or grow your control of operational, EHS, and transactional value risk. Pilko brings you what you need to succeed.

Pilko & Associates is the industry leading operational and environmental, health, and safety risk advisory firm—working with clients in 59 countries and advising on M&A deals worth more than $600 billion.

Concise summaries of key operations/EHS and transaction risk challenges and how to increase control of risk for your project, assets and enterprise.

US +1 713 357 1000

pilko.com
700 Louisiana St. | Suite 4500 | Houston, TX 77002
info@pilko.com

grey paper

pilko

THE SITUATION

Compared to companies in other industries, energy and chemical companies face outsized risk, largely due to escalated operational safety hazards, regulation, governance and compliance leading to financial and reputational consequence due to unforeseen incidents. Thus, increasing control of risk—and mitigating downside outcomes—are critical success factors for energy and chemical company leaders.

In the past, effective leaders recognize these challenges and worked hard to mitigate risk through tactical programs, quantitative assessment and prioritization, resulting in incremental risk management and risk register tools.

A NEW REALITY

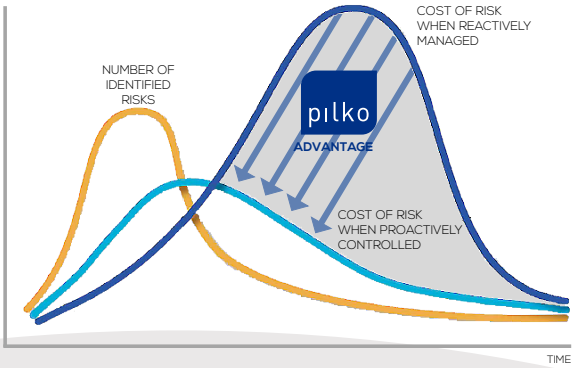
Today, everything has changed. Incremental risk management is no longer good enough. Increased risk control is required to reduce financial, reputational, project, asset and environmental failure.

Incremental management has been replaced with broad-scale risk control. Discrete, plant, or operational-level risk assessment and management have been supplanted with enterprise-wide risk prioritization and control.

It's a new world that demands new and better methods, tools and practices—leading to "no surprises."

Today's environment requires an enterprise-wide view of risk control that spans the entire business and identifies both quantitative and qualitative risk earlier than ever before. Doing so allows the business to increase control of risks ahead of possible incidents or events, thereby mitigating downside outcomes.

Companies want to shift from risk management to risk control and get ahead of the risk curve sooner.



As the illustration above shows, the cost difference between risk that is proactively controlled vs. risk that is reactively managed is material. Risks that are identified, verified, prioritized and controlled sooner shift the cost curve right, getting ahead of the risk and lower in total overall cost.

TWO RISK TYPES

The key to increasing control of operational and EHS risks is having a holistic view across the enterprise—with an emphasis on both hard and soft risks—and being able to quickly validate, prioritize, and work both risk types in tandem.

What do we mean by "hard" and "soft" risks?

Hard Risks. This category tends to have defining factors, statistical data, hard facts and reliable measures. And, since much is already known, one can take engineered solutions to achieve desired outcomes. These hard risks tend to be the quantitative ones to a business.

Soft Risks. These risks tend to involve situations where risk factors are unknown or otherwise difficult to determine, and thus the course of action is difficult to decide. This type of risk generally takes more planning and application of extensive risk control processes and methods in order to weigh what is known against the majority that is not. Soft risk examples are factors like leadership, culture, governance and compliance—the qualitative risks within a company.

grey paper

pilko

Energy and chemical companies have a rich history of internally working hard risks within the ongoing operations of their business.

Conversely, the very same companies have a very sporadic history of working soft risks, because the identification, validation and prioritization requires extensive knowledge and understanding of best-practices—coupled with deep insight into the unknown and difficult, often only discovered through a third-party "cold-eye" review and partnership.

THE PROBLEM

Many energy and chemical companies continue to live in a world of risk management through tools such as PHAs, incident investigations and mechanical integrity inspections. Some have even implemented larger tactical programs, leading to risk registers that only log known hard risks and lagging indicators. These approaches reflect historical risk management needs and are insufficient to meet today's risk control demands.

Today's environment demands more. Risk has become a strategic imperative, requiring a strategic view across operations and environmental, health and safety that is scalable from one plant or project to the entire enterprise.

Experienced leaders have learned that the most expensive and time-consuming risks are those that were never seen, considered and prioritized and worked. This often leads to catastrophic incidents that substantially and negatively impact profitability, reputation and competitive capability. Leaders seek to increase control of risk across all areas, even the hardest to find.

Leaders want comprehensive risk control, including even the hardest-to-find risks. How can this be done?

THE CHALLENGE

Energy and chemical companies face five primary challenges in their desire to increase risk control. They are:

- Scope. Getting beyond known, obvious hard risk areas into discovery, validation and prioritization of the unknown, unobvious soft risks.
- Integration. The merging both hard and soft risks into a comprehensive risk control program that reduces operational, EHS, financial and reputational exposure.
- Scalability. The ability to view and increase risk control from a single project, plant, or operation to the entire business or enterprise using the same analysis, prioritization, measurement and reporting criteria.
- Predictability. Having a consistent and repeatable approach and process for finding, understanding, prioritizing and increasing control of risk—no matter changes in leadership, management, ownership or operational strategy.
- Objectivity. Removing human factors that contribute to optimism bias, desire for quick answers, or taking the path of least resistance or lowest level of effort.

360 DEGREES OF INCREASED RISK CONTROL

360° programs have proven effective in all areas of a business. The same is true when it comes to increasing operations and EHS risk control.

Energy and chemical companies around the world have learned from Pilko how to have a 360° view and increase control of their operational and EHS risk. They have achieved these results by merging existing risk management efforts with critical, external "cold eye"

insights, resulting in a comprehensive risk control program, containing both hard and soft risks, that is scalable from a single plant to the entire enterprise.

Pilko clients have gained critical insight, proven best practices and field-tested tools and methods that deliver actionable roadmaps, strategic plans and tactical activities that rapidly, dramatically and sustainably improve risk control in operations and EHS.

Most importantly, by gaining a 360° view and results, Pilko clients have seen reduction in incidents, leading to lessened financial, reputational and environmental impact.

THE BENEFIT

A 360° risk control program from Pilko increases operational and EHS risk control from the control room to the boardroom. Blind spots are reduced or eliminated. Hard and soft risks are merged into one effort that spans the entire operation or business.

Leaders have the optics, appropriate response, progress measures and reporting to accelerate success in mitigating risk exposure. As a result, energy and chemical clients see a reduction in operational cost, a reduction in the cost of risk and an increase in the asset or enterprise value of the business.

Moving from incremental risk management to increased risk control is the difference between failure and success. Moving from simple measurements and risk registers to a 360° risk control program is the difference between continued "uh-oh" moments and a "no surprises" future.

SUMMARY

Perhaps it's time to:

- Get ahead of operational and EHS risk before it becomes an incident
- Reduce or eliminate surprises
- Achieve proper resource allocation
- Increase confidence and trust across your varied stakeholders
- Grow resilience to change while maintaining high-risk control standards
- Safeguard life, assets, the environment and your company
- Increase overall company value and profit maximization

What will you decide to do? Incrementally manage risk or strategically increasing operational and EHS risk control?

Answer carefully. Your operation or business may hang in the balance.

Grey Paper Author: George Pilko, Chairman

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.

US +1 713 357 1000

pilko.com

700 Louisiana St. | Suite 4500 | Houston, TX 77002

info@pilko.com