

GREY PAPER

insights

pilko

Leadership Part Four:

Growing competency to gain control of risk within the organization

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 Operational/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

INTRODUCTION

Leadership plays a significant role in controlling risk. Leadership creates the right environment for employees and contractors to do their very best work while encouraging transparency regarding issues and risks that require attention.

Great leaders help organizations see risk differently than in the past, creating better future outcomes. The role of every leader, at all levels and times, is to “Challenge the Green and Support the Red” – encouraging employees and contractors to highlight, prioritize and control real issues and risks.

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

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

SUBJECT MATTER EXPERTS FOR RISK CONTROL

Best-in-class leaders realize that diverse experience creates thoughtful discussion and action that leads to increased risk control. Training excellence coupled with hands-on, field-based experience – both tested by success and time – provides the background that is necessary to control risk.

Leaders know that specialized Subject Matter Experts (SMEs) contribute significantly to increasing risk control. Organizations should therefore find and develop people who become SMEs in the competency of calculating risk and facilitating a consistent process for prioritization.

SMEs understand how to look outside of their organization's history, to a broader industry perspective, to fully appreciate the probability and consequences of current and future risk, instead of solely relying on a site's history.

SMEs seek out and integrate the diverse experiences of others to gain additional knowledge, beyond their own working time or through discussion with others at their facility. SMEs develop networks with others who are concerned with better risk control through understanding and calculation.

Proactive and engaged leaders know the value of SMEs and find ways to identify, cultivate and provide recognition beyond traditional annual performance appraisal cycles, thereby increasing organizational knowledge, assessment and control of known and unknown risk.

Are SMEs a key leadership strategy to increase control of risk within your organization? They should be.

THE POWER OF “WHAT IF”

Keys to developing the risk control capability of an organization is probing “what if” scenarios.

“What if” is a powerful tool in discovery of unknown risk as well as more completely understanding existing risk. Routine and effective use of “what if” scenarios and “table top” exercises create new organizational and individual discipline around how one thinks about risk – in a safe, calm environment vs. within the pressure of an incident.

Human nature tends to think optimistically and is biased toward positive outcomes; therefore, it is critically important that organizations challenge “that couldn't happen” or “that couldn't happen here” thinking. The “what if” exercise creates the challenge, analysis, understanding and avoidance of optimism bias risk.

Field-tested examples of “what if” scenarios are:

- **What if** a facility were to have a total steam system failure caused by steam header piping failure (that section of piping that requires a total facility shutdown to be inspected, and probably hasn't been inspected in 50 years)?

- **What if** a facility were to experience loss of a computer process control system (not too far fetched an idea in our world of computer-based hackers, viruses and Trojans)? How capable are newer trained operators and the organization at manually running a facility for an extended period of time? **What if** operators had to shut down a process unit without computer controls?
- **What if** a field instrument starts providing incorrect level information and creates a tower overflow scenario?

Create a culture that encourages open, transparent and honest “what if” scenario discussions. Use “table top” exercises to assess various outcomes and solutions. You’ll increase your risk control by averting future risk or being better prepared for the next “it can’t happen here” event.

THE ROUTINE DISCIPLINE OF PHAs

Forward thinking companies continually seek to improve understanding of their operational environment, especially when significant equipment or process changes happen.

Best-in-class organizations routinely and proactively use Process Hazard Assessments (PHAs) as a means to understand and control risk – led by experienced resources, engineers, operators and a trained facilitator.

Within the United States, PHAs of individual process units are required to be conducted every 3-5 years. These assessments take 6-10 weeks to complete and require dedicated resources for the entire review period, which represents a significant resource requirement, in time, money and people for an organization. Because of these resource drains, organizations may be tempted to “cut corners.”

Avoid cutting corners by having the right, experienced people conduct the PHA and ensure a level of detail sufficient to evaluate many risk scenarios, leading to a true understanding of the probabilities and consequences of various operating modes.

Leaders instill the perception that it is an honor to be asked to serve on the PHA team and process rather than that of just “something that has to be done.”

An integrated, proactive and detailed use of PHAs forms the basis for increased risk control within the company, organization and plant. Utilize PHAs as a significant contributor to future success and not a “necessary evil” to be completed.

RIGHT RISK MITIGATION EXPECTATIONS

Great leaders know that setting and measuring the right expectations creates clarity, focus and greater success, which is especially true for risk mitigation and control.

The importance of developing the right mitigations for risk is critical for organizations. Mitigations can be actual changes to a process or equipment, operator checks during routine rounds, or more frequent checks done by inspectors and maintenance technicians.

Most importantly, ensure mitigations are effective and remain in place over time. To test effectiveness, leaders should require periodic reviews of mitigations, done by the team involved in managing the risk. Mitigation reviews can also be completed periodically by people not directly managing the mitigation. Cold Eyes Review is the common term to describe this process.

People often make assumptions that mitigations are always effective and that checks are always completed, but mitigation history demonstrates repeated failure and incidents across the industry.

To mitigate positive assumption and check bias, organizations must get beyond intuitive risk and mitigation assessment to a more formalized, quantifiable and actionable approach. While much work is done with respect to well known Key Performance Indicators, disciplines around identification, impact measurement and prioritization of Key Predictive Indicators may not. (For a discussion of the KPI differences, please see [Leadership Series Grey Paper number three](#).)

THE VALUE OF THE "FRONT LINE"

The best leaders know that the people who identify a large number of the risks for site operations are the front line workers. They, therefore, know it is important to tap into these knowledgeable resources at every site.

Set expectations for your organization to fully engage operators, maintenance technicians and engineers to identify risks and mitigations. You'll be pleased by the outcome.

TAKING THE NEXT STEP

Competency in finding, assessing and increasing control of risk is key to future production and financial performance. It's risky to leave risk control up to historical process, prior precedent or unprepared people.

To increase risk control, move yourself and your organization to a more proactive stance – relying on SMEs, "what if" scenarios, routine PHAs, the establishment of proper mitigation expectations and integration of front-line resources in a coordinated manner.

An additional step in growing risk control competency is through the formalization of comprehensive Risk Registers. The Risk Register accelerates proper prioritization of risk, the right allocation of resource and greater mitigation of risk.

Grey Paper Author:
Sue Krienen, Senior Advisor, Pilko & Associates

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.

A good place to start is with a prioritized "Top 20" Risk Register. Report out progress monthly at leadership team performance reviews; then take appropriate actions should current risk mitigation not be found effective or if progress is not being made.

GETTING STARTED ON BETTER LEADERSHIP

Leadership matters when increasing control of risk. We hope this four-part Leadership Grey Paper series has highlighted how great leadership makes a difference in how sites manage and increase control of risk.

Now it's your turn. Will you demonstrate best-in-class leadership within your organization? Will you lead your team to better, more effective risk control? It can be done.

Pilko & Associates has many years of experience in controlling risks in refining and petrochemical operations. We can help you review your risk areas, current performance and future consequence and provide guidance on how to ensure the very best in increased risk control. Let us help you become the very best risk control leader.

Energy and chemical leaders have consistently relied on Pilko & Associates to increase and accelerate achievement of 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 organizations and companies.

