

GREY PAPER

INSIGHTS



QUESTIONS THAT BOARDS SHOULD ASK



PILKO & ASSOCIATES GREY PAPER

Concise summaries of key Operational/EHS and Transaction Risk challenges and how to unlock value for your organization.

Pilko & Associates is the Leading Advisor to Corporate Officers and Boards on Operational and EHS Risks – working with clients in 78 countries and advising on M&A deals worth more than \$600 billion.

QUESTIONS THAT BOARDS SHOULD ASK

by GEORGE PILKO

Driving Safe and Reliable Operations starts with effective board governance that cascades down through the organization to the control room.

If board governance is superficial and/or leadership gaps exist in the organization, Operational/EHS Risks increase as does the probability of major incidents.

Board members typically have the best of intentions yet sometimes struggle with how to engage Corporate Officers in meaningful dialogue about the company's approach to driving safe and reliable operations.

This Grey Paper lays out a framework for a director's dialogue with executive leadership.

Directors must question Corporate Officers in depth regarding Operational/EHS Risks.

Directors of energy/chemical companies are well aware of the financial and reputational impacts of catastrophic incidents. These incidents can be devastating even for the largest companies and occur regardless of the size or past reputation of the firm.

Despite this awareness, directors commonly lack detailed understanding of the company's approach for mitigating these risks. One reason is boards often fail to ask penetrating questions that can provide insight into the company's management of catastrophic Operational/EHS Risks.

While having a board member or members with relevant operational experience is always preferable; any director can ask probing questions, then evaluate the quality of the responses.

This paper offers three questions for directors to ask and some background on how best to evaluate responses from management. If management teams scramble to provide credible answers, serious gaps likely exist that need to be addressed.

"How are Operational/EHS Risks managed?"

Simple question. When we ask this question of Corporate Officers in the Americas, Europe or Asia, the immediate answers typically center on a combination of management systems and audits.

In many – if not most – companies, two fundamental flaws with these answers exist.

First, management systems often provide false assurance that what executives at headquarters intend to happen in the field – and what they believe actually happens in the field – truly matches reality.

Anyone with experience in operations understands that what really matters is what happens at 2 a.m. on a Saturday morning when management isn't looking. Often, the disconnects between intentions and reality are appalling.

These disconnects are the primary reason that executives often ask in the aftermath of a major incident, "How did this happen? We have policies/procedures to prevent this!"

The problem, of course, is that too many energy and chemical companies lack the operational discipline to flawlessly execute their policies and procedures.

Hence Corporate Officers and boards believe their company's major risks are under control, yet reality is quite different.

Second, EHS-related audits done at most companies are ineffective. A CEO for one of our major clients claims that **"90 percent of audits are a waste of resources."**

Why is this so? Most audits focus on identifying symptoms that need to be fixed, but they do not address systemic issues that are typically the root causes of catastrophic incidents.

As a result, plant organizations scramble to fix symptoms identified during audits, while overlooking the need to focus on identifying, prioritizing, then aggressively mitigating Operational/EHS Risks.

Where do you want the focus of your organization to be?

“How does our process stack up to rapidly evolving industry best practices?”

Is your company aware of evolving industry best practices for aggressively managing Operational/EHS Risks?

Does company leadership understand what Gaps currently exist between their existing practices and industry best practices?

Is a plan in place to close these Gaps over time?

Keep in mind that the root cause of **70 percent of catastrophic incidents are “soft” risks caused by Gaps or shortcomings in Leadership, Culture, Competence, and Governance.**

As a result, leading companies focus on both “hard” and “soft” risks with the understanding that a holistic approach to managing risks is required.

“How do we track our progress over time?”

Most companies systematically track leading and lagging indicators in order to judge their progress in managing Operational/EHS Risks. Tracking these indicators is necessary but clearly not sufficient.

During the past two to three years, clients have increasingly commented that their metrics have improved **BUT** the frequency and severity of major incidents remain unchanged.

The missing piece to the puzzle is the failure of these companies to step back and holistically evaluate how effectively their organization approaches Operational/EHS Risks – from the board room to the control room – and make continuous improvements over time.

Even “cutting edge” approaches to risk management get stale over time and need refreshing and updating. A warning sign is when a company’s fundamental approach to Operational/EHS Risks has been basically unchanged for the past five years.

A different approach

We are typically retained by Corporate Officers, at the urging of their board, in the aftermath of a major incident. Our role is to:

- Assess how a company addresses Operational /EHS Risks on a holistic basis
- Identify opportunities for improvement
- Work collaboratively to develop action plans that fit the company’s culture.
(See [8IGHT DRIVERS® Grey Paper.](#))

This approach is fundamentally different from “yet another audit,” which simply buries plant organizations with more “to dos.” Instead, we help organizations focus on their highest priorities and ensure that they are tackling these priorities with the right resources.

A better approach is clearly not to wait for a major incident to take action. Having confidence that you are working on the right things and that you have a clear plan can help everyone sleep a bit better.

Sound attractive?

ABOUT THE AUTHOR:



George Pilko is the founder and chairman of Pilko & Associates, the leading advisor to Corporate Officers and boards on Operational/EHS Risks.

From his creation of the firm over 40 years ago, George recognized the problem of continually escalating catastrophic risk and has been determined to address it.

He is passionate about supporting companies to achieve safe, reliable, and sustainable operations by providing, “Brutally Honest Yet Respectful” advice.

Over the years, George established ongoing Transaction Roundtables (1999), Governance Forums (2004) and Director Workshops (2017), which bring together Corporate Officers and boards of leading companies to share best practices for managing Operational/EHS Risks. To date, the firm has hosted over 120 such events.

His current focus is working with an elite group of directors to define Best Practices for Board Governance with the intent that boards globally adopt these practices.

George and his wife Jan split their time between Houston and Park City, Utah. Their passions include their three children and their families including four very cute grandchildren, traveling, and supporting families in need.

He is a Chemical Engineering and MBA graduate of the University of Michigan, and remains an avid alumnus.

ABOUT PILKO & ASSOCIATES

Pilko is the Leading Advisor to Corporate Officers and Boards on Operational and EHS Risks in the energy, chemical and related industries, with a vision of transforming operations to be the safest, most reliable, and sustainable.

We help Clients solve their toughest challenges by identifying and mitigating Operational and EHS risk.

We advise Clients on Driving Rapid, Dramatic and Sustainable improvement in Operational and EHS performance, as well as advise on mergers, acquisitions, divestitures, and major projects.

Pilko Advisors are always brutally honest but respectful.

For more information about our services and capabilities, please visit us at www.pilko.com.