

Where there's smoke

Achieving safe and reliable operations with enterprise risk management

Chemical and petroleum companies today face complex challenges threatening their business, information and people. These risks have traditionally been viewed through a finance or health, safety and environmental (HSE) lens – often too narrowly focused. Companies often undervalue and under invest in end-to-end risk management activities, despite a distinct correlation between enterprise risk management and market success. Elevating risk management to the enterprise level can provide an opportunity to improve business reliability, resilience and predictability across the board.

Risk: Taking a wide angle view

Chemical and petroleum (C&P) businesses today face a changing market. There is volatility in what is sold, where it is sold and to whom. Logistics and operational environments are increasingly complex as companies expand in hostile or distant locations. And the infrastructure required to manage it all gets more costly by the day. As a result, companies face a broad spectrum of complex risks threatening their businesses, information and people.

Despite the increasing exposure to risk events, many companies view risk management as primarily a finance or health, safety and environmental (HSE)

problem – and tend to undervalue or under invest in integrated risk management practices.

Yet, according to a recent survey by the IBM Institute for Business Value, a distinct correlation exists between more sophisticated risk management and market performance. Enterprises with broader integrated risk management characteristics tend to outperform others in the chemical and petroleum industries.

Elevating risk to the enterprise level

Executives interviewed in our survey indicated a substantial gap exists between the desire of their organizations

to comprehensively manage risk and their ability to execute. Gaps are greatest in the ability to provide the infrastructure for risk management, as well as in the ability to manage risk to desired levels. The largest gap centers on their ability to drive continuous improvement in this area, which is hindered by the lack of information integration.

In today's complex business environment, C&P companies may look to close those gaps by developing develop specific elements within an enterprisewide risk management framework, including:

Beyond the traditional: Creating a broader focus for risk management entails developing an expanded and prioritized definition of risk that goes beyond the traditional financial and HSE standards. First, risk hot spots can be identified and prioritized based on their potential their impact on the business value drivers of each individual company. Once identified, high-priority risks can be incorporated into business planning.

Insight to risk: To manage the broader definition of enterprisewide risk requires underlying integration capabilities. In our study, outperforming companies were more likely to have standard



processes, global process ownership, global information standards and global processes. Standardization allows the simplification of underlying systems and organizations. Merging performance and risk management the company's overall key performance indicators creates a single definition of performance that drives intelligent, informed business decisions based on these priorities. Insight into risk provides the visibility to act when warranted.

The risk aware culture: Once employees have the visibility to act, how can a company make sure people make the best choices? Executives in risk management leadership roles are critical to the success of managing enterprise risk and must be both aware of the risk environment and empower employees to act. Companies should orchestrate and communicate risk management from the top and create an adaptive organizational model. Establishing a corporate culture conducive to enterprise risk management requires fostering an environment of risk awareness and empowerment to act.

Looking forward: How to anticipate rather than react

Our research clearly shows that companies with broader integrated risk management characteristics tend to be well positioned to improve reliability, resilience and predictability. What are these factors that successful companies have in common? Our research shows those with effective integrated risk management systems tend to:

- Focus on what risks are important to their company's success
- Create a common business language across their enterprises through common processes and technologies – one that will ultimately reduce complexity

- Assign enterprise risk responsibility to the highest levels of the corporation
- Provide the visibility to employees to know when to act
- Allow and encourage their people to do the right thing
- Grow and share lessons learned so that their companies and their people can adapt as conditions change
- Integrate risk into their forward-looking business decisions.

No doubt, creating integrated enterprise risk management is a significant, transformative – and sometimes daunting – undertaking. But those that succeed often become the industry's top performers.

There's still room at the top. Where do you want to be?

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