

Risk Management: The Path to Excellence

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For executives who manage risk, ensuring that appropriate standards and practices are maintained and refreshed throughout far-flung, diverse operations has never been easy. In the early 1990s, it got a lot tougher. External pressures and requirements for more detailed, documented risk management systems escalated in the wake of well-publicized industry accidents. Internal requirements for risk management also multiplied as senior leadership set forth new environmental, health, and safety objectives. At the same time, many companies began to undergo massive reorganizations: decentralizing, layering, reengineering, and often downsizing. For most risk management executives, these converging forces have meant doing more and doing it better than ever before – with the same or fewer resources.

How do companies stay focused on improving risk management performance under these pressures? Executives representing eight companies whose risk management programs are among the best of the best in the field shared practices and viewpoints at a recent Arthur D. Little colloquium. They explored how companies today are meeting ever-greater risk management demands by using staff resources and expertise more efficiently. They described how to achieve greater consistency and assurance across a wide range of businesses and operations. They examined how companies are addressing multiple requirements, regulations, and guidelines through internal, worldwide standards. And they looked at likely directions for risk management in the future.

Doing More With Less

Participants identified three specific strategies that can help companies meet risk management performance goals while facing resource constraints:

- Use risk screening and decision-making tools to determine when – and when not – to continue a risk analysis.
- Share resources across divisions and operations; avoid reinventing effective practices and procedures.
- Retain and build knowledge resources. Ensure that reorganization does not deprive you of staff members who possess mastery of risk management issues.

Identifying Risks and Setting Priorities.

Companies have long been using risk assessment methods that involve screening and prioritizing at the operational level. What distinguishes leading companies in risk management today is the integration of assessments in the context of an overall risk management program. If there is risk assessment activity, but no risk management program, individual departments' decisions may benefit – but they won't be consistent across the organization, or even within one part of the organization.

Brad Silver, Risk Manager, Pipelines, NOVA Gas Transmission, Ltd., described how his company has used a sophisticated decision and risk analysis process to better understand its ability to finance its losses and exposures. On the basis of that new understanding, the company was able to obtain significant savings – approximately 40 percent on its property insurance premiums. The company realized these savings by accepting a higher level of financial risk in areas where its assessment indicates that this is prudent.

Rohm and Haas's application of internal risk criteria helps the company make better decisions about allocating resources where they will do the most good. The criteria provide a way to identify risks the company regards as unacceptable, risks the company seeks to reduce in a continuous improvement process, and risks so low that the cost of reducing them further outweighs any benefit in doing so.

„Using this approach allows us to understand where we have significant risks, and how they are coupled with the businesses,“ said Greg Keepports, Manager, Hazard Assessment and Environmental Engineering, Rohm and Haas. „It also provides companywide consistency – our managers, particularly operational managers, understand the approach now and work with it.“

Sharing Resources. Looking for ways to manage risk more efficiently and more effectively, companies are extending the reach and impact of their existing expertise. Les Scher, Director, Technical Risk Management Services, WR. Grace & Co., described the trend: „Companies are beginning to realize that they have a tremendous amount of talent and experience that's been built up over the years.“ Now the challenge is to ensure that organizational structures, traditions, and habits don't prevent businesses and operations from sharing what they

know.

One of the simplest ways to share staff talent is to enable experienced individuals to cross organizational boundaries when necessary to help other businesses or divisions within the company. This approach can be problematic in practice. When staff members bill out their time, as is the case for risk management personnel at NOVA Corporation and Rohm and Haas, crossing boundaries is relatively simple. But where the organization has no established procedure, obtaining permission to detach staff members from normal duties and figuring out who pays for their time can become major obstacles.

Les Scher described another way to share: „We’ve developed an expert list across the company. When issues and questions come up, we put them on our InfoNet and e-mail systems, so we can access the expertise.“ Monsanto and Rohm and Haas have also had good results with expert lists and internal networks. Rohm and Haas’s „Yellow Pages,“ said Greg Keeports, „cover technical resources in 20 categories, such as risk assessment, remediation, loss prevention, and environmental engineering.“ Monsanto has created ESHNET, an environmental, health, and safety technical information network that uses Lotus Notes.

Jim Evans, Associate Director, Operational Safety and Risk Management, Union Carbide, offered a third option: „If you’ve got a limited amount of expertise available, one way to use it is to have the experts develop tools and processes for others to use.“ At Monsanto, ESHNET is already making this happen. „For the first time in my life I’m starting to see procedures shared between plants,“ said Tony Thompson, Manager, Safety Technology, „We’re not starting with a fresh piece of paper every time a new procedure is needed.“

Retaining and Building Knowledge Resources.

Expertise and seasoned judgment are critical to effective risk management. Yet as companies reorganize for greater efficiency and seek to reduce costs across businesses, processes, and functions, they may inadvertently lose staff members whose mastery of process safety and risk issues provides a level of value that is hard to measure.

Companies can replace some lost expertise with contract staff, but this approach has its limits. Said Jim Evans of Union Carbide, „There’s a misconception floating around with reengineering that you can always bring in the outside resources and they can do the job. Those who are actually involved in doing the job realize that often the effectiveness is not nearly as good as you would expect it to be from a business perspective.“ Greg Keeports of Rohm and Haas observed that while opportunities exist for effective outsourcing, their success requires internal managers who have the technical expertise to understand what needs to be done and the ability to manage – in other words, just the kind of seasoned, senior staff that may take advantage of an attractive early retirement package when a company is seeking to reduce headcount.

Companies nurture corporate learning in risk management to the extent that they succeed in integrating risk management expertise with broader business thinking. If risk management is perceived as an isolated technical function, it will always be vulnerable to resource cuts that limit its effectiveness – and ultimately may put the company at greater risk.

Managing Risk in an Era of Decentralization

„When companies decentralize, one of the givens is that the decision-making style is going to vary more from facility to facility and from manager to manager. By definition, that style becomes less explicit,“ said Ladd Greeno, Senior Vice President of Arthur D. Little and Managing Director of the firm’s Environmental, Health, and Safety Consulting business. In the midst of decentralization, many risk managers have been tasked with shaping new corporate-level standards for risk management intended to apply worldwide. At Olin, for example, said Peter McGrath, Manager of Process Safety, „Our top management is breaking the company down into small business units. And now these smaller units are trying to define what risk levels they need to achieve. We have to make sure they understand what it is they need to achieve.“ In this environment, consensus from the businesses is critical for success as corporate risk managers seek to set worldwide standards, achieve consistency across businesses, and foster a spirit of teamwork.

Worldwide Standards. „The corporation is the entity – in the neighbor’s mind, in the press’s mind, from a legal standpoint,“ remarked Greeno. If anything goes wrong, public opinion will hold the corporation, not one particular business, responsible. For this reason, the corporation and its businesses must be in agreement about risk management policy and procedure.

To ensure a consistent risk management approach that meets both business and corporate goals worldwide, Monsanto is moving from a specification-based risk management program to one that is business-based. The new approach strikes a balance between policy and procedure. In developing the new approach, Monsanto has recognized

that some of the 15 businesses might question the relevance of specific policies and procedures to their operations. „Monsanto understands that there are some best practices that may not be desirable in all 15 units,“ said Tony Thompson. „But we believe there are core requirements for being a member of the Monsanto family. And it enables us to do a much better job of leveraging the resources of an \$8 billion dollar company to address risk management issues.

Consistency in a Business-Based Approach.

Since 1992, ICI has moved decisively to decentralize and reorganize. The company underwent a massive „demerger,“ dividing its 500 subsidiary businesses between two new companies: „new“ ICI and Zeneca. At the same time, ICI, which used to operate through national companies that provided centralized functions for local businesses, has moved completely to international businesses, each of which is run globally from a single country. The company describes the philosophy behind its new structure as „business primacy with corporate citizenship.“

In this spirit, ICI has shifted primary responsibility for risk management and for environmental, health, and safety activities to its businesses – reducing its (U.S.) number of corporate environmental, health, and safety staff from thirty in 1992 to one today. How does ICI ensure consistent and appropriate risk management with such lean corporate resources? The key is what ICI's General Manager, Safety, Health and Environment, David Ferguson called a „virtuous circle.“ The circle begins with the Board of Directors, which sets the policy upon which the worldwide standards are based. Guidelines, in turn, are based upon the standards. Using these standards and guidelines, the businesses develop local procedures. The CEO of each business closes the circle with an annual, formal letter of safety, health, and environmental assurance to the chief executives committee and the Board, stating where each business stands in terms of ICI standards and addressing any other safety, health, and environmental issues or concerns.

Teamwork for Sustained Improvement. BP seeks to provide consistent and effective risk management service to its businesses by working closely with them to help them prioritize risks. The company uses a workshop approach that brings together safety, health, and environmental people from all levels of the organization, as well as personnel from operations and commercial. Said Eamonn Naughton, Hazard Risk Analyst, HSE Assurance Department, „In this way, with scarce resources, we've been able to help each business unit arrive at a method to work out where existing safeguards and management processes protect against risks, identify how effective they are, and use a gap analysis to define where they should go in terms of providing resources in the future.“

Another important tool at BP for managing risk across disparate businesses is an annual performance contract between corporate management and each business, a percentage of which relates to health, safety, and environmental performance. BP has won acceptance for this approach from the businesses because it provides, in Naughton's words, „a strong business focus on safety and risk.“

Clearly, among leaders in risk management today, the key to effective risk management lies not only in possessing technical abilities or standards and guidelines, but also in speaking the language of line-of-business managers. Corporate risk managers today are often coordinators of initiatives rather than leaders. They work to clarify roles, responsibilities, and performance expectations. They seek to demonstrate the long-term benefits of sound risk management. They achieve buy-in for their objectives by providing strong, service-oriented implementation support; by using ranking to establish priorities; and by using timing to spread resource requirements fairly. Through these kinds of approaches, they become partners with the businesses and operations in forging risk management programs that help protect the corporation while meeting business objectives.

Setting Standards

Risk managers today face not only internal priorities but a plethora of government requirements, industry guidelines, and international quality management standards. If a company were to try to meet each of these standards separately – or to let each of its businesses do so – the result would be massive duplication of effort, as well as programs that would not necessarily address risks specific to that company's activities.

These considerations have led many companies to set internal standards that encompass all relevant external requirements and guidelines, while helping to shape appropriate procedures for the businesses they are in. The process is not an easy one. In addition to defining company priorities and aligning them with the major regulatory and industry initiatives, companies need the right tactics for overcoming internal barriers. Leading companies find two of these tactics especially valuable.

Focus first on what to do, not how to do it.

Companies such as Union Carbide have achieved success with worldwide risk management standards by first establishing policies, not procedures. „With the 'how-to's,' you start getting into all kinds of consensus problems,“

said Jim Evans. „The ‘what’s’ are much more easily agreed to, particularly if there is a corporate mandate and vision for excellence.“

Use senior management support to counter middle-management pushback. When corporate standards push beyond what the regulations require in a particular area, some middle managers may fight back, questioning the need to exceed compliance. Consistent senior support can help to sustain momentum. „When managers realize that top management is serious,“ noted Les Scher of W.R. Grace, „the job gets done.“ Senior management can make that commitment because it knows that in the final analysis, responsibility for safe operations rests with the corporation.

The Future of Risk Management

What distinguishes leading-edge companies in risk management is their commitment to learning. These companies recognize that factors affecting risk and technical approaches for reducing risk continually change. Companies that are prepared for change are in the best position to protect – and enhance – their profits and reputations and to secure business advantage from effective risk management.

What are the keys to continuous learning? „A sense of ownership of the process is critical,“ according to Arthur D. Little’s Ladd Greeno. That’s why, among the Best of the Best in risk management, so much attention is given to creating strong team relationships between corporate centers of risk management excellence and business operations. Through these relationships, new ideas and procedures can be communicated quickly, and mutual respect for company-wide and business priorities is maintained.

Just as important is the ability to make new learning stick – to enable companies to build on previous improvements rather than repeatedly redoing everything in hopes of getting it right. Recognizing and nurturing the talented people and extensive knowledge the company already possesses is vital for retaining lessons learned and minimizing corporate forgetting. Also vital is a clear vision of overall risk management goals that helps everyone in a large, complex, fast-moving organization stay focused on what’s needed – and avoid what isn’t.

Companies should continue to explore ways to measure and communicate risk management successes and accomplishments. Some companies have become increasingly good at sharing risk management issues and best practices with their employees, the general public, and other stakeholders. But more opportunities exist for communicating the benefits of successful risk management.

Traditionally, in risk management, no news has often been good news. If things are going well, why draw attention to the concept of risk at all? The drawback with that approach is that it can breed complacency among internal stakeholders who make decisions about resources, and encourage stakeholders outside the company to pay attention only to problems. Companies that make use of effective ways to keep both internal and external stakeholders aware of what they are doing right will be in the best position to maintain the momentum for leading-edge risk management.

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