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## Risk Management lessons from the Deepwater Horizon oil spill

When the Deepwater Horizon drilling rig in the Gulf of Mexico exploded in April 2010 the incident received press attention world-wide. When the resulting oil spill seemed set to become the largest in USA history, as each effort to stem the flow proved futile, attention also turned to the failures which allowed it to occur.



Three months and four million barrels of oil later, the spill has at last been halted by capping the well. As the drilling of relief wells continues to attempt to provide a permanent solution, public scrutiny is squarely focussed on the underlying causes of the disaster, and whether it could have been prevented.

Evidence has come to light suggesting that the rig's managers knew it had serious problems before the explosion, and the question on many lips is whether their inaction was a personal or a systems failure.

It seems likely that fault lies in both areas, but the implication for the safe management of deepwater drilling in other locations, including Australian waters, demands that the risk management process as it is applied in this industry is carefully scrutinised.

The outgoing CEO of the World Wildlife Fund and a former BP executive, Greg Bourne, says that many of the risk assessments conducted in the industry are based on 'fault tree' analysis. The process involves identification of all the possible failures requisite to the

activation of an identified risk, determination of the probability of each failure, and the multiplication of these probabilities to reach an assessment of the overall risk.

The problem is that this process has resulted in conclusions such as the risk of a large spill being one in a million years. Such risk analysis outcomes are not credible, and do not bear out documented experience in the real world.

Techniques such as fault tree analysis can be helpful in providing structure to the risk assessment of a complex activity. However, the outcome of any risk assessment needs to be considered objectively in the light of common sense and real world experience. If the outcomes of your risk assessment fail this logic test, it should be viewed with caution.

Regardless of the technique used, there is always the need to sit back and critically assess – “does this risk assessment result seem right?” There is a tendency to believe an outcome just because it came out of a computer; similarly, there is sometimes a blind acceptance of the output of risk management programs and methodologies.

There is also some evidence to suggest that the other key systemic failure involved in the Deepwater Horizon disaster is that management may have considered the risk assessment process in the light of a compliance exercise only. If senior management officers do not understand risk management, and most importantly actually do something in response to the outcomes of the risk assessment process by developing and implementing risk controls, then risk management programs will be useless in preventing such disasters from occurring again.

QRMC suggests that good quality training in both the principles of risk management and the use of specific techniques is vital for those undertaking risk analyses, in order to provide assurance that the outputs will be useful and credible.

Executive management should also receive training in the principles of risk management so that they can both understand and champion risk management in their organisation. QRMC offers training in risk management awareness and risk management techniques to all industries and levels of personnel (information [here](#)).

## Effective hazard control programs

Workplace health and safety hazard registers are frequently confused with organisational risk registers. Corporate risk registers in particular can be inappropriately cluttered with low level hazards instead of risks which might impact on business objectives.

However, well managed hazard registers are an important component in the management of workplace safety. It is vitally important that there is a process for registering identified hazards,

assessing and controlling the related WHS risks, and then reviewing any implemented controls to ensure they are effective.



An effective hazard management process should include the following characteristics:

1. A clearly documented risk assessment process including an assessment matrix, consequence and likelihood tables, and review of the effectiveness of current controls
2. A register prioritising the management

of hazards from most to least serious

3. The application of the Hierarchy of Controls in planning identified hazard controls
4. The documentation of senior management responsibilities, including monitoring
5. The prioritised assignment of hazard management resources to areas at highest risk
6. Assignment of accountability and action timeframes for the control of identified hazards

7. A mechanism for newly identified hazards to be added to the register
8. A review mechanism particularly focussed on checking the effectiveness of implemented controls
9. A close-out and communication process so that hazards identified by employees are acted upon and feedback returned to the employee
10. Sharing of information and the minimisation of 'silo'-style hazard management practices between organisational areas
11. Reporting mechanisms to track the management of hazards over time with updates made to the register
12. The details of the hazard management process and hazard register is communicated to all personnel

QRMC recommends regular (at minimum, annual) reviews of the hazard control program and the underlying risk management process. QRMC can provide a gap analysis of existing organisational practice and recommend areas for improvement, or undertake the review and update of hazard registers as well as overarching safety management systems.

## 15 steps to better Corporate Governance

Many organisations think of corporate governance as a compliance exercise to be undertaken once and forgotten. A board or management team might commission and exercise to check whether relevant regulations and codes are being adhered to, and consider that this is enough to satisfy their corporate governance obligations.

Good corporate governance, however, is driven from the top down to become a part of the culture of an organisation and the way it conducts its business.

The following list of steps can provide a guide to achieving good corporate governance in your organisation:

1. Acknowledge that corporate governance is about the effectiveness of the Board and/or management team, not just compliance with legislation
2. Recognise the leadership role of the Board Chairman or CEO in setting the compass for the entire organisation
3. Ensure that non-executive directors and/or management have the skills, training and experience they need
4. Review, and where necessary, clarify the role of the non-executive directors and/or management
5. Ensure that review mechanisms are in place for the identification of changes to compliance requirements and the updating of management systems
6. Ensure that communication channels exist for all levels of personnel to feed critical information to the top

7. Ensure that all directors/management have a sound understanding of both the company operations and the business objectives
8. Ensure that the Board/EMT has a good relationship with the management team
9. Ensure that the directors/management team can access all the information they need
10. Acknowledge that the management of risk is a Board/EMT responsibility



11. Monitor Board/EMT performance and improve where possible
12. Emphasise that the organisation does not belong to the directors/managers
13. Review relations between the organisation and key external

stakeholders including shareholders, auditors, regulatory bodies and customers

14. Review organisational attitudes towards ethical behaviour and business practices
15. Develop and communicate written policies to reflect the organisation's attitudes towards ethical behaviour and business practices

QRMC also notes that considerable savings in costs and effort can be made when governance and compliance mechanisms are integrated with the management systems of the organisation, in particular the risk management program.

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