

Governing Energy

All Hands!

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Over the past couple of years we have all been reminded about the impact a major operational failure can have on our everyday lives. Most recently and despite modern navigational aids, the Italian cruise ship *Costa Concordia* was lost allegedly because of negligence by the ship's Master and possibly abetted by other executives. By some accounts, it was apparently common practice to sail close to shore as a publicity "salute."ⁱ

One of the emerging challenges of the 21st Century is the management of expensive, global and complex revenue generating assets that have the potential for *low frequency—high impact* catastrophic, high visible failures. Whether a cruise liner, pipeline, offshore drilling rig, or nuclear power plant, recent events have illuminated the need for management to take a more robust role in operations.

This is the first in a series of biweekly commentaries about contemporary issues in organizational *governance* and its new role in operations. Mention the word governance and many think of the classic definition of corporate governance as the framework for accountability and transparency within the organization.ⁱⁱ Implicit in this definition is the requirement for sound operational practices. However, in practice, governance is often viewed as a Board and CEO/CFO function with little impact on daily field operations.

Hypothesis—this limited view of corporate governance is no longer valid. Exogenous events often drive significant industry sector change. One can argue that beginning in April 2010 the energy sector has experienced multiple *low frequency—high impact* incidents that have triggered change both inside industry actors as well as from broader societal constituents.

The CEO and the Board of Directors now live in a world where a field engineer/technician or even a supplier can destroy significant shareholder value (even cause the death of the firm) in an instant. Governance models must extend into the field and supply chain!

What assurances does your organization have that your ships will keep off the rocks?

About the Author

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of two books and has written extensively about the field of operations management. Shemwell is also the CEO of Knowledge Ops, Inc; a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management.

ⁱ <http://www.voanews.com/english/news/europe/Divers-Continue-Search-on-Italian-Ship-138126028.html>

ii <http://www.businessdictionary.com/definition/corporate-governance.html>