

# Governing Energy

## Cultural Risk

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How much risk should an organization be willing to take? How does its culture dictate the answer to this question?

The iconic film manufacturer, Eastman Kodak invented the digital camera, a product that ultimately destroyed it.<sup>i</sup> How could this have happened?

According to one source, Kodak was slow to change because mistakes in its manufacturing processes could be costly and the “razor blade” business model for photographic film was very profitable. Apparently, the company avoided high risk decisions and “instead developed procedures and policies to maintain the (status) quo.”<sup>ii</sup>

Organizational culture defines an organization and can be the source of pride and competitive advantage.<sup>iii</sup> Moreover, because culture is engrained in the firm and is a governor of the employees and even partners, it can be difficult to change. However, this can be detrimental as the Kodak case study suggests—Chapter 11 bankruptcy protection filed in January 2012.

The construct of the so called Safety Culture has dominated discussions in the upstream oil and gas sector since 2010. It is also a common theme in other critical sectors as well, i.e., medicine, nuclear power, etc. Rarely is Risk Culture discussed.

A brief comparative analysis of the two cultural models follows. On the surface the ten Risk Culture characteristics align with the nine Safety Culture Tenets (quoted from BSEE). However, as with most model comparisons, there are some differences.

Notably, the Safety Culture does not specifically address risk mitigation (except as part of the hazard identification which is more of an operations/engineering process than the overall Enterprise Risk Management) and ethics but both are strongly implied.

Risk Culture <sup>iv</sup>	Safety Culture <sup>v</sup>
Leadership Commitment to levels of Risk Taking and Avoidance	<i>Leadership Commitments to Safety Values and Actions</i>
Ethics in Decision Making	<i>Hazard Identification and Risk Management</i>
Importance of Continuous Management of Risk and Individual Accountability	<i>Personal Accountability</i>

Timely Transparent Flow of Risk Information without Fear of Blame	<i>Work Processes</i>
Environment for Raising Concerns	<i>Continuous Improvement</i>
Risks should be Understood Regardless of the Size of the Project	<i>Environment for Raising Concerns</i>
Appropriate Risk Behaviors Are Rewarded and Inappropriate Challenged and Sanctioned	<i>Effective Safety and Environmental Communication</i>
Risk Management Competencies Are Developed and Widespread	<i>Respectful Work Environment</i>
Sufficient Diversity of Thought to Assure Status Quo is Consistently and Rigorously Challenged	<i>Inquiring Attitude</i>
Alignment with Organizational Behaviors and <b>Strong Bond Governance</b> <sup>vi</sup>	

The Risk Culture of an organization must be aligned with its Safety Culture. If the practitioners of the Safety Culture are reticent to adopting disruptive technologies and new practices in field operations, they may unwittingly actually increase the risk of the overall organization.

They may be codifying a higher level of risk than the Risk Culture norms of the firm. Likewise, if the firm sees itself as a High Risk—High Reward economic player, its safety exposure may be too high as well.

A Systemic Culture of Safety is an Enterprise Risk Management model.<sup>vii</sup> As such, this extended model is tightly coupled with the Risk Culture construct.<sup>viii</sup>

A cultural mismatch may lead to sub optimal performance or even countervailing processes. While disconnects between the office and the field are not new issues. In the current environment there is not much latitude for less than Operational Excellence.

## **Is Your Organization’s Risk Culture Jeopardizing its Safety Culture or Vice Versa?**

## 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 six books and has written extensively about the field of Operations Excellence. Shemwell is the Managing Director of The Rapid Response Institute, a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management. He has studied cultural interactions for more than 30 years—his dissertation; *Cross Cultural Negotiations Between Japanese and American Businessmen: A Systems Analysis (Exploratory Study)* is an early peer reviewed manuscript addressing the systemic structure of social relationships.

## End Notes

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<sup>i</sup> <http://www.forbes.com/sites/chunkamui/2012/01/18/how-kodak-failed/#2b62db28bd6a>

<sup>ii</sup> <http://strategytank.awardspace.com/articles/What%20went%20wrong%20at%20Eastman%20Kodak.pdf>

<sup>iii</sup> Shemwell, Scott M. (2015, April 7). How Can Humans Effectively Manage Increasingly Complex Systems? Deep Space Deep Ocean: Aramco Technology and Operational Excellence Forum. The Woodlands.

<sup>iv</sup> [https://www.theirm.org/media/885907/Risk\\_Culture\\_A5\\_WEB15\\_Oct\\_2012.pdf](https://www.theirm.org/media/885907/Risk_Culture_A5_WEB15_Oct_2012.pdf)

<sup>v</sup> <http://www.bsee.gov/uploadedFiles/BSEE/Final%20Safety%20Culture%20Statement.pdf>

<sup>vi</sup> [http://www.pennenergy.com/blogs/governing-energy/2016/01/a\\_year\\_for\\_strongbo.html](http://www.pennenergy.com/blogs/governing-energy/2016/01/a_year_for_strongbo.html)

<sup>vii</sup> <http://www.coso.org/documents/Framework%20Reference%20Secured.pdf>

<sup>viii</sup> \_\_\_\_\_ (2016, May 18) Implementing a Systemic Culture of Safety: The Role of IT. PNEC 20th International Conference on Petroleum Data Integration, Information and Data Management. Houston.