

Governing Energy

Safety Board

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The Center for Offshore Safety is charging the upstream energy industry to transform itself to one of a Culture of Safety.ⁱ In other words, risk management from a systemic perspective.ⁱⁱ

Change management professionals have long argued that in order for change to become permanent, it must be driven from the top of the organization. This industry renovation will be no different.

Throughout this series, indeed the theme of this soliloquy has been the changing nature of institutional governance. To date, this blog has mainly focused on events and learning from events. This knowledge must become actionable as organizations move up the Maturity of Understanding curve.ⁱⁱⁱ

Much has been written about organizational change management, including a forthcoming book, *Implementing A Culture of Safety Offshore: On Target—On Time—On Budget* which I am the coauthor along with the eminent authority on change management, Winford E (Dutch) Holland, Ph.D.^{iv} The unique challenges faced when an entire industry is transformed rapidly are not unique to the upstream sector.

Notable others including the U.S. Navy nuclear submarine program and the nuclear power generation segment. Some in the drilling and production segment are looking to these two in particular for learning and good practices that are applicable.

None of this transformational change can be enabled without strong leadership. The Board of Directors is uniquely positioned to enable a transformation charter. The Committee of Sponsoring Organization of the Treadway Commission describes the role of the Board from the standpoint of effective enterprise risk oversight. The COSO report stresses the following requirements:

- Expectations of the Board in enterprise-wide risk oversight are at an all-time high
- Balancing enterprise risk management while adding value is a significant challenge facing Boards
- Board engagement in this area is critical
 - Risk is a function of the organizational culture
 - Active role in effectiveness of risk management systems
 - Identify excessive exposure in the organizations' portfolio
 - Keep apprised of the most significant risks and appropriateness of management's response
- Robust engagement by the Board strengthens the organization's resilience to significant exposures^v

COSO released its original *Internal Control—Integrated Framework* in 1992. Since then, there has been a substantial body of knowledge developed in this area.^{vi} Of importance to this discussion, COSO has its roots in the financial governance side. Therefore, field operational risk management converges with financial risk management. Perhaps obvious but sometime not understood in practice.

As has been previously suggested in this series, extending the governance model directly to field operations is now required. It is no longer satisfactory to incorporate management leadership simply in the company's Standard Operating Procedures (SOP).

The Board's responsibility for effectively field operations cannot be delegated to management any more than the financial reporting requirements. Transformation to a Culture of Safety should strength organizational resilience to significant risk exposures.

How does your Board of Directors assure stakeholders that the transformation to a Culture of Safety will be successful?

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.

End Notes

ⁱ [Establishing a Culture of Safety](#)

ⁱⁱ Shemwell, Scott M. (2011, May 12). *Navigate the Compliance Matrix: Compliance Tools as the First and Last Line to Regulatory Defense*. [The Energy Summit](#). The Houston Club.

ⁱⁱⁱ [Six Levels of Understanding](#)

^{iv} <http://www.hollandmanagementcoaching.com/>

^v [Effective Enterprise Risk Oversight: The Role of the Board of Directors](#)

^{vi} [COSO Internal Control—Integrated Framework, December 2011](#)