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**Corporate Governance and
Safety Risk Management in Asia**

**Dr Alan Waring
Chief Executive
Asia Risk (HK) Limited**

INTRODUCTION

- **Leaders of central SOEs** *'must have a strong sense of risk management to maintain sound development'* **(PRC government, Dec 2004).**

- **China Aviation Oil collapse.**

- **Financial risk management discipline being imposed on China businesses.**

- **Also SHE risk management under review for all sectors, including coal mining.**

- **Nevertheless, such positive steps are still some years behind the West.**

- **What issues and problems are there?**

- **What solutions are available?**

GOVERNANCE & RISK MANAGEMENT ISSUES

- **Governance: a fancy term for good management but focussed on the Board.**

- **Protection of shareholders' interests.**

- **All significant risks to the business must be identified, analysed and managed correctly, by elimination, avoidance, reduction, control etc.**

- **Self-regulation.**

- **Turnbull; Sarbanes-Oxley.**

MULTIPLE RISK EXPOSURES

- **Often complex and inter-acting.**

- **M&A, product liability, capital projects, credit, security, marketing, contracts, H&S, major hazards, environment etc.**

- **Two over-riding critical issues are corporate reputation and brand.**

- **Years to achieve, hours/days to destroy.**

- **Share values, market confidence and ultimately survival depend on reputation.**

SAFETY & MAJOR HAZARD EXAMPLES

- **Bhopal (Union Carbide)**
- **Piper Alpha (Occidental Petroleum)**
- **UK railway disasters 2000-2003 (Railtrack, Jarvis, Balfour Beatty)**
- **Environmental damage (Exxon, Shell, PetroChina)**
- **Refinery fires UK & USA (BP)**
- **Coal mine disasters (PRC government)**
- **Chemical plant explosions (PetroChina, Jilin)**
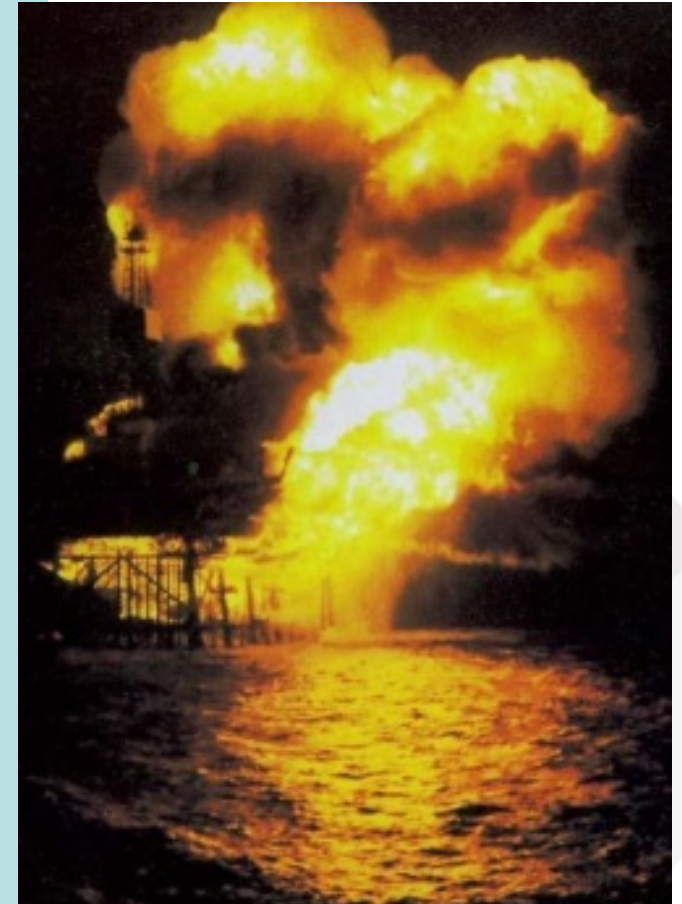
CHINA

- **In 2004, 136,000 deaths, 700,000 handicapped in workplace accidents, costing 2% of GDP.**

- **Momentous industrial expansion and inward investment including factories.**

- **Western companies nervous about differential H&S standards and potential adverse publicity/damage to reputation and share values.**

ORGANISATIONAL & CULTURAL ISSUES

- Sound system of internal controls for good governance *'should be embedded in the operations of the company and form part of its culture'*. (Turnbull Guide).

- One test of safety culture is to compare risk management objectives with actual achievement.

- Organisations observing governance rules tend to reach objectives faster and with lasting results.

TYPICAL DISPARITIES

Desirable Objectives	Typical Achievement
Integrated risk mgt	Fragmented reality
Strong, cohesive safety culture	Organisational silos and sub-cultures, at odds
Safety a high priority	'Safety first' rhetoric and 'Safety last' reality
Robust SMS	Simple checklist prescriptions
SMS validation audits and compliance audits	Checklist compliance inspections

TYPICAL DISPARITIES (Cont'd)

Desirable Objectives	Typical Achievement
Need for disaster/crisis management and business continuity planning	'It will never happen to us'
Need for closer attention to organisational, safety culture and business risk issues	Over-reliance on safety engineering and technical safety focus

MANAGEMENT SYSTEMS

- Many guides, standards, books on SMS.

- But stated desire for robust SMS often not achieved.

- Where do problems lie?

- Speaker's 25 years experience including BS8800 drafting suggest the following…...

FALSE EXPECTATIONS

- **Simply adopting SMS standards is sufficient to create high safety outcomes.**

- **Independent certification guarantees high safety outcomes and indicates superiority vs. other organisations.**

- **Compliance audits are sufficient to validate the whole SMS.**

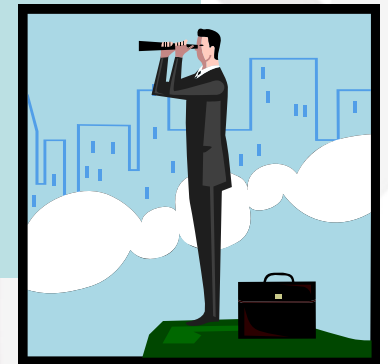- **A certified SMS guarantees a strong safety culture.**

SYSTEMIC REQUIREMENTS

- **Both a robust SMS as designed and as operated and a strong safety culture are needed to enhance the degree of prediction and control afforded by the SMS.**

- **Both routine compliance audits and periodic validation audits of the SMS required.**

- Global marketplace demands that organisations meet corporate governance requirements, including corporate social responsibility and risk management (including safety).

- Asian companies cannot ignore or pay lip service if they want to win in the market.

- Culture shift from laisser-faire/minimal compliance to responsible risk-taking enterprise-wide.

Case A: Multinational Global Media Group

- 7 Divisions and 17 Operating Companies in UK, Europe, USA, India, Asia-Pacific

- Professional Group RM function

- Active RM backed up by insurance

- Carried out corporate-wide review of SHE management for Board Risk Committee

- Integration of SMS design & operation to common standards and anti-silo culture.

- 6-monthly reports of RM and KPIs incl SHE status to Board

EXAMPLES OF
THE MODERN THINKING (Cont'd)

Case B: Global Financial Services Group

- Operations in 10 Asian countries

- Carried out review and development of corporate SHE management system incl risk exposures in SE Asia

- Protection of reputation and brand

- Legislation, governance, and marketplace.

- Links to security, crisis management and BCP

Case C: Defence Organisations

- **Effective RM for governance-driven contract-out procurement and Integrated Project Teams for military platforms.**

- **Assisted in set up of robust and transparent RM systems incl. major hazards systems assurance.**

- **BRA, RMS development, cultural analysis & development, mgt training.**

- **Integration of H&S, major hazards, fire & environmental MS into single coherent system.**

Case D: Public Transport

- **JPT for major rail route modernisation**

- **Assisted with capital project safety risk assessment and mitigation planning.**

- **Support for Train Control System Business Case.**

- **Risk registers, risk evaluations, mitigation planning e.g. commercial risk and response, implementation.**

CONCLUSION

- **Growing recognition in Asia of RM but behind Europe and N America.**

- **Effective RM pivotal to protecting shareholder & stakeholder interests, esp. reputation and brand.**

- **Next 10 years will test ability of Asian companies to change from laisser-faire/minimal compliance to responsible risk-taking culture.**

- **Practical need for robust SMS within RMS and strong safety culture within responsible risk-taking culture.**