ENTERPRISE RISK ASSESSMENT, MEASUREMENT, & MANAGEMENT FOR INFORMATION PROFESSIONALS

WORKSHEET TO HELP WITH PREPARING CASES FOR CLASS DISCUSSION AND/OR ASSESSMENTS

|  |  |
| --- | --- |
| **STUDENT NAME: Rutwik Ghag** | **CASE NAME: Unocal** |

Fill this out BEFORE trying to complete the assessment. These cases present information throughout the chapter. If you try to answer questions as you read, you will miss many of the important facts presented later in the case and may have problems presenting your information in an insightful manner. The discussion forum may be helpful.

1. **List any terms you do not understand or questions you have. Add to this list as you read along. Fill in answers as you find them.**

The Unocal Case is one of the easiest ones to understand. I understood most of the text given in the case. However, the ISRS and the OMS system workings piqued my interest. ISRS was a very inefficient way to run an audit, and somehow the company got away with it.

Partner Operated Ventures (POV) - Unocal's joint ventures that were investigated to assess the risks involved.

HES 800 - The company's health, environment, and safety audit program, sometimes known as 800 questions.

1. **After reading the case, what do you feel are the *most important facts about* the**

**company’s business, markets, and/or history that influence the firm’s RISK culture? WHY are these important?**

Important facts about the company’s business that influences the firm’s risk culture are:

-Unocal Corporation is the world’s largest investor-owned oil and gas exploration and production company.

- [1]” The company has remained an “independent.” In the early years, Stewart fended off repeated attempts by larger oil companies to acquire Union Oil.”

- [1]” The company prides itself on being the low-cost oil driller in the industry. Clearly, company culture reflects the economic lessons learned by the highly efficient, no-frills, resourceful Lyman Stewart back in his wildcatting days.”

These are important as the oil industry works on the belief of; [1]’ “Find Oil or Go Broke”.

1. **What does the case indicate were the most important reasons the company decided to engage in Enterprise Risk Management, i.e. Why NOW? Who was most influential in championing this change to and Enterprise perspective of risk?**

[1]” Unocal's decision to implement enterprise-wide risk management was prompted by three events that occurred around the same time: Karl Primm left a Big Five firm to become the head of internal audit firm of accountants Primm moved fast to make Unocal's internal operations more efficient. Unocal's Enterprise Risk Management initiative was spearheaded by Tim Ling. He thought that if you allow your risks spiral out of control, the company will suffer uncontrollable losses, causing the company's stock to plummet and the bottom line to suffer. He was a firm believer in establishing a robust enterprise-wide risk management strategy that went beyond compliance. Karl Primm also aided Tim Ling in this idea and supported him throughout the effort by taking on key responsibilities. Karl Primm took over as head of the internal audit team, ensuring that the corporation focused on high-impact risks rather than low-impact ones.

Taking a more risk-based approach to auditing, the organization had progressed beyond its previous health, environment, and safety (HES) audit program, which was primarily focused on compliance. Known as the "800 Questions" informally. Tim Ling joined the company as CFO after working at McKinsey and Company. He had previously served as a consultant for Unocal management a period of seven years The following is a summary of Ling's strong opinions on risk management: Risk management should be a line function, not an afterthought.

“It's not a job for the personnel, and a good risk manager is a good manager.”

1. **Describe how this company structures and delegates decision making for Enterprise Risk Management? (Describe the structure.) For example, do they have a single Risk Management Department and a Chief Risk Office (CRO), or do they expect everyone to be involved, or a little bit of both. How is this different from their past approaches? Is there anything unusual about their approach? How is it different from** the Chase Manhattan case and WHY?

Tim Ling, the company's new CFO, reported to Internal Audit Head Karl Primm. Kim Timber joins as an internal audit risk assessment manager to help make internal audit risk based. Big Five was hired as a consultant to help with the development of ERM, risk assessment, and internal auditing. In an unusual move, the internal audit team was tasked with conducting three pilot studies to further refine the notion of risk assessment and create the first true risk profiles. The first two studies were led by management, whereas the third study was led by an internal audit team. Unocal devised a portfolio method that included brain storming sessions to compare risk across six worldwide joint ventures (partner operated ventures - POVs).

For all POV activities, signposts or indicators were identified as an early warning system in case the risk profile changed. In a big culture transformation initiative away from existing staff responsibility, management aimed to shift the mentality of line managers. Effective adjustments, akin to internal audit, made the HSE department more risk focused. The period of the 800 questions ended, giving way to a new risk-based, operations-focused ERM that was critical for the effective management of Unocal's health, environmental, and safety problems, as well as its core exploration and production operations. The OMS procedures arose from the company's excellent loss- control program, and they clearly demonstrate top management's trust in the parallels between business and risk management. The ERM, or Operations Management System, ensured that everyone was involved in identifying risks and mitigating them through a consistent organization-wide risk assessment framework, which was different from Chase, where operational risk management was still in its early stages and far behind market and credit risk management.

Company-wide risk management came from internal audit Corporate Health, Environment and Safety (HES) Department. Both groups are working towards that Spread the idea that good managers are good risk makers throughout the organization Managers and their risk management are line functions, not staff functions. Efforts Internal audit and HES provide the infrastructure to drive risk across the enterprise Management of the entire operation management. Unocal believed that risk should be managed across the integrated enterprise, not abandoned. For employees in different departments to manage risk by risk. Unocal's management team This cultural change takes time, but Unocal is committed to making it happen. Chase Manhattan's risk management structure is a hierarchical structure that focuses on five keys. risk. In the case of Unocal, the ERM structure is the entire enterprise (like a hierarchy), but it is not. Fully focused on specific risks. Take a holistic approach to the risks your company faces face.

1. Top of Form
2. Bottom of Form
3. **What were some of the company’s biggest challenges in making the transition from their old approach to dealing with risk to the new focus on ERM? Why were these challenges? Do you think every company would face these same challenges? Why or why not?**

The judgement by Unocal management that ISRS was not up to the task appears to be right. Only a risk-based approach would be able to keep up with the rapid change.

Rather than worrying about the 800 check marks on an auditor's work papers, management would use dynamic self-assessment to identify the areas of greatest risk and develop strategies to solve them. Another difficulty was persuading people, both employees and line managers. Because many people in smaller and simpler institutions had long assumed that ISRS required them to do a lot of boring work that didn't help much and was better suited to a larger facility. They had a hard time persuading people that they had spent a lot of time designing the program and that all they needed to do now was execute it. Much of the opposition to the reform stemmed from an out-of-date view of health, environmental, and safety issues, rather than from concerns about additional work.

1. **Using the table below, list some of the main risks this company has identified with how they measured these risks, and how they manage them.**

|  |  |  |
| --- | --- | --- |
|  | | |
| **What are the main RISKS they face?**  **Be brief but specific**  **and provide an example.** | **How do they measure these risks?** | **Briefly explain the main method for managing each risk, *(for example, how each Risk is Mitigated, Transferred or Shared)* and why they manage the risk this way?** |
| Operational risk: Loss of people and technology that works efficiently  1. Drilling Operations  2. Oil Spills  3. Exploring Oil Resources | Risk Mapping | In-house training was rigorous, and current drilling staff were expected to obtain industry-recognized credentials. Through their well design process, they promoted safe drilling operations and handled changes in well design. |
| Manufacturing Risks | Unocal is the only company in the industry to have an in-house team dedicated to understanding submarine blowout preventers and interventions. | Unocal is the only company in the industry to have an in-house team dedicated to understanding submarine blowout preventers and interventions. |
| Financial Danger  1. Failures to export  2. The dangers of money transfers  3. Risk of a currency depreciation | Monte Carlo Analysis | Make effective portfolios using techniques like as cost-benefit analysis and net present value (NPV) |
| Political danger  1. Regulatory policies of the government  2. Inability to export to a specific location  3. Permission to export to other countries | Risk Matrix and Risk Register | Having a point of view and getting along with the government. Decision-making efficiency and international banking exploration |

1. **How does this company approach contingency planning or disaster recovery planning/plans as part of their overall ERM approach? (E.g. integrated, detailed and specific, general guidelines or not discussed?)**

Unocal deployed the ISRS state-of-the-art system in 1990 after significant customization because it was developed to address safety issues in the manufacturing business, not the oil exploration industry. The compliance aspect of ISRS was found to be insufficient after a decade of adoption to manage business risk that continued to surface in this ever-changing and technology-driven industry. An integrated program, according to company management, should be used to control overall business risk that can be broken down into components. As the ISRS system was deemed to be inadequate Unocal implemented OMS. The OMS integrated system to identify, profile, evaluate and mitigate the risks across the company in rapidly changing business scene. The Big 5 consultations gave recommendations on how to manage risk.

Unocal's ERM technique, according to the case study, does not contain any contingency or disaster recovery planning. The whole debate was centered on the risks and the company's risk management culture, with no mention of disaster recovery or contingency planning.

1. **What does the company feel are the main benefits of ERM for their firm?**

The company feels the main benefits of ERM for their firm were: -

-Action Flows and objectives became the focus and not functions and positions.

-Risk ranking for management decisions were implemented

-The company’s loss control program and the inadequacy of the ISRS system gave to rise to the OMS.

-HSE performance was improved by the employees.

-The process of auditing was more efficient.

1. **What surprised you most about this case? Why?**

The Sensitivity analysis described in the text surprised me the most. This was intriguing as Oil prices and drilling success rates have a highly significant impact on Unocal’s earnings. [1]” A $1 change in worldwide oil prices per barrel would lead to an estimated $33 million change in net income and a $0.14 change in earnings per share. A 10 percent change in the exploratory drilling success rate would lead to a $27 million change in net income and an $0.11 change in earnings per share. Given the instability of oil and gas prices and the uncertainty of exploratory drilling success rates, Unocal faces significant income exposure from these two factors.”

Unocal operated in a high-risk, high-accident oil industry. Many of their competitors had disasters with large numbers of casualties, but it surprised me that Unocal had no major setbacks or incidents that were unmanageable and raised questions about their methods. Unocal was methodical in their approach and managed them well, which did not stain their reputation and allowed them to stay in business.

1. **What do you think is the *most important lesson*(s) to be learned from this firm’s experiences with Enterprise Risk Management? Be SPECIFIC. Hint: Think about what may be unique or different for this firm.**

The important lessons to be learned from Unocal’s experience are:

[1] ” Unocal has had to manage the high stakes risks of finding oil and producing it economically and safely. Failure to manage these risks would have spelled ruin for the

Company, but only recently has Unocal embraced the notion that risks should be managed on an integrated, enterprise-wide basis—not left for staff people in various areas to deal with risk by risk. Risk management is a line function, Unocal management believes, and that means it must permeate everything the company does. Starting in the internal audit and health, environmental, and safety units, a focus on risk assessment and control is beginning to affect all business units. A cultural change like this takes time, but Unocal is committed to the effort, and its progress to date is substantial.” Furthermore, Unocal concluded that integration of all risk types is a business risk and risk management should be considered a line function.

References: -

[1] Making enterprise Risk Management Pay Off by Thomas L. Barton, William G. Shenkir, Paul L. Walker