# Enterprise Risk Assessment, Measurement & Management for Information Professionals

## Case Analysis Worksheet: Unocal Case (in Barton, Shenkir & Walker 2002)

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## Instructions

*This worksheet follows the ERM Process model used in IST 425 and IST 625. The cases we study, however, present information throughout the chapter. If you try to answer questions as you read the case the first time, you will miss many of the important facts presented later in the case and may have problems presenting your information in an insightful manner. In responding to questions, do not just quote or copy, but synthesize. Reference specific facts, including page numbers.*

*Remember, read the case three times. The first time you read the case, focus on the story and make not of the types of information provided. The second time you read the case, work to fill in the worksheet (keep track of page numbers for particularly relevant information). The third time you check over the case, look for other information to elaborate or support your responses.*

## Starting Your Analysis

1. This case addresses a very large organization in the natural resource sector. What are some of the unique terminology or organizational aspects that were new to you?

Unocal itself is very new to me, and I didn’t know about their existence, but one thing that was new to me is Partner Operated Ventures (POV). I learned about this term through the lecture videos/PowerPoints, but POVs are essentially partners with extensive knowledge about an area. For example, they know all the regulations and laws in a country that Unocal may want to operate in, and the POV will let Unocal know where they can and can’t drill. The HES program was also new to me. The health, environment, and safety program were known in Unocal as the 800 questions. The ISRS (International safety rating system) was implemented to help Unocal understand its risks and to essentially evaluate its overall business. Another thing that was new to me was hedging risks because of the price fluctuations. Unocal used future contracts, swaps, and options to hedge exposure to price fluctuations.

## Part 1 of ERM Process Model (Business, History, Inherent Risks, Risk Appetite/Risk Culture)

1. After reading the case, what do you feel are the *most important facts/events* the company’s industry, business, markets, founding or other history that influenced the firm’s RISK culture? Which of these do you feel is the most important in sharing their risk culture?

I think one of the most important facts is that Unocal is currently the world’s largest investor-owned oil and gas exploration and production company. Additionally, the industry that Unocal operates in is one of the riskiest industries and heavily regulated because it involves environmental risks. Unocal has also remained independent after larger companies tried to acquire union oil. Unocal also continued to focus on its primary strengths of exploration and production. So as the industry was changing, Unocal was focusing on its strengths, which enabled them to become the largest investor. Additionally, managers were more interested in keeping employees safe, unlike BP, where they were reactive. I think the most important thing is Unocal’s employees and the want for them to be safe. They want the individual places to succeed and manage their risks well, without harming its employees.

1. Why did Unocal feel they needed to make a change to an Enterprise Risk Management view of risk? Who championed the change initiative to ERM? Do you feel that they would have been more or less successful if they had done it differently?

Unocal needed to change to ERM because they operated based on compliance rather than trying to mitigate risks. Tim Ling was the one who initiated the change to ERM. He said that if risks get out of control, Unocal would also see losses out of control, and the stock would suffer. He wanted to develop a strong ERM system rather than doing things for only compliance. If they did it differently, I don’t think Unocal would be as successful because they don’t have the same risks that “traditional” businesses would encounter. They became more risk-oriented and moved past the 800 questions with the ISRS. They also used consulting firms to help them with their risk management processes.

## Part 2 of ERM Process Model: Risk Governance/Infrastructure

1. How did Unocal structure their ERM in terms of risk policy setting and decision making? (Describe the structure as centralized, decentralized or hybrid.) Why do you think Unocal structured their new ERM the way they did? For example, why not have a single Risk Management Department and a Chief Risk Office (CRO)? As part of moving to an enterprise approach to risk management, did they radically change their approach or build on their past approaches? Is there anything that you feel is particularly effective about their new structure, given their type, or size of organization?

Unocal has a more decentralized ERM structure. There isn’t a CRO, and they wanted to instill in all of their employees that risk management is good management and should be incorporated with how they operate. Unocal understands that employees must understand company objectives and how risks can hinder them. It makes sense for them to structure it this way because they have so many employees, and their old system was based on compliance rather than looking at risks. This transition was a bit harder since everyone was used to the old system but having everyone on the same page allows them to succeed. As mentioned earlier, Unocal completely changed its approach by transitioning from a compliance-only view to risk management.

1. What were two of the company’s biggest challenges in making the transition from their old approach focusing on Health and Environmental Safety (HES) risks to the new focus on Enterprise-wide Risk Management? Why were these challenges for their firm? Do you think every company would face these same challenges? Why or Why not?

One challenge they had was trying to get everyone on board with the change to ERM. HES was very focused on compliance and was simply yes or no answers for 800 questions related to safety. Many people were used to this system and were reluctant to change because they were concerned about what they were being audited for. Another challenge was many audit units didn’t make any sense. Kim Primm realized that the internal audit department concentrated on traditional controls and ignored most of the fundamental business risks facing Unocal, and did not spend its resources well (focused on low-risk stuff and ignored/disregarded high-risk stuff). These are challenges because it’s hard to get everyone on board with changes if they’ve been using something for a long time, and if resources are being used wrong, the business won’t operate as well in the long run. Not every company would face these same challenges because Unocal is in a different industry than most companies.

## Parts 3, 4, & 5 of ERM Process Model: Aligning Risks Identified, Measurement and Management

1. Using the Risk/Measurement/Management table below, identify three risks and align with one or two risk measurement metrics and with at least one risk management approach (e.g. consider different techniques they used to mitigate, transfer, or share a risk. Be specific.).

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| **Risk (definition and example)** | **Measurement Strategies** | **Management Strategies** |
| Operation risk: people aren’t working efficiently or with safety, causing an oil spill | Risk mapping  ISRS | Training and require employees to carry certifications |
| Financial risk: There are multiple projects that interest Unocal, but there are limited resources | Monte Carlo analysis | Create portfolios like cost-benefit analysis using the Monte Carlo analysis to understand the risk and returns of projects better |
| Political risk: Failure to follow government policies | Risk matrix | Have POVs and try your best to comply with the government. A good relationship with the government allows you to do more in the area you’re trying to operate. |
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## Part 6 of ERM Process Model: Business Continuity Planning and Disaster Recovery

1. How does Unocal explain or document their contingency planning or disaster recovery strategies as part of their overall ERM approach?

It doesn’t seem like Unocal has contingency planning or disaster recovery planning strategies. The case study focused on risks and risk management styles but didn’t talk about contingency planning.

1. What does Unocal feel are the main benefits of ERM for their firm over the previous approach? Do you agree?

One of the main benefits is being able to evaluate the risks with accuracy. The POV studied risks such as financial, sociopolitical, construction, operating, revenue, and appraisal. They then produced a risk matrix status board to show which risks affected what department and to what degree. They also tried to mitigate risks for their own good rather than for compliance only reasons. Also, using POV, ISRS, and OMS helped them successfully transition. I agree because using POVs alone will mitigate risks drastically. Additionally, Unocal will be more efficient and successful with risk management when people fully transition and follow the new system.

## Closing Reflections on Unocal Case

1. What surprised you most about this case about ERM at a large, international organization in the natural resource sector? Why? Be SPECIFIC.

Something that surprised me is that even though they had a lot of competitors that had disasters, Unocal wasn’t affected dramatically. They handled incidents well, unlike BP, who had incidents after incidents. The natural resource sector is one of the riskiest and accident-prone industries because of possible environmental and human accidents. Unocal didn’t have any significant setbacks, unlike BP, which had to go to court and had many setbacks such as finances.

1. What do you think are the *most important lesson*s to be learned from this firm’s experiences with Enterprise Risk Management?

The most important lesson I learned is the way they approached the transition to ERM. The c-suite employees had a clear understanding of goals and visions for the company and wanted to change the way Unocal operated. They changed from a compliance-only view to a risk management view and addressed these risks through POVs, OMS, and ISRS. They also understood the volatility in the industry and made sure to account for those risks. Despite being in a super risky sector, they became the world’s largest investor-owned oil and gas exploration and production company.