

strategy&

Formerly Booz & Company

*From compliance
to commitment*

&

**Taking pride
in operational
excellence**



Contacts

Amsterdam/Paris

Douwe Tideman
Partner
+33-1-44-34-3127
douwe.tideman
@strategyand.pwc.com

Beirut

Georges Chehade
Partner
+961-1-985-655
georges.chehade
@strategyand.pwc.com

Dubai

James Thomas
Principal
+971-4-390-0260
james.thomas
@strategyand.pwc.com

Houston

Juan Trebino
Partner
+1-713-650-4151
juan.trebino
@strategyand.pwc.com

London

Viren Doshi
Senior Partner
+44-20-7393-3572
viren.doshi
@strategyand.pwc.com

Jens Nackmayr

Partner
+44-20-7393-3218
jens.nackmayr
@strategyand.pwc.com

Penelope Clayton

Principal
+44-20-7393-3292
penelope.clayton
@strategyand.pwc.com

Melbourne

Malcolm Garrow
Partner
+61-3-9221-1928
malcolm.garrow
@strategyand.pwc.com

Milan

Giorgio Biscardini
Partner
+39-02-72-50-92-05
giorgio.biscardini
@strategyand.pwc.com

São Paulo

Arthur Ramos
Partner
+55-11-5501-6229
arthur.amos
@strategyand.pwc.com

About the authors

Viren Doshi is a senior partner with Strategy&, based in London, in the oil and gas practice. He has more than 30 years of energy industry experience, and specializes in implementing pioneering strategic transformations and mergers, managing supply and trading in volatile markets, and designing innovative business models.

Jens Nackmayr is a partner with Strategy&, based in London, in the operations practice. He has 20 years of experience in operational excellence programs and business process optimization.

Douwe Tideman is a partner with Strategy& based in Amsterdam and Paris. He has 25 years of consulting and industry experience in the upstream energy sector in Europe, the Middle East, and Asia. His functional expertise includes performance improvement, strategy and business development, and transformation change programs.

Penelope Clayton is a principal with Strategy&, based in London, on the firm's energy team. She specializes in operating model improvement and human resources aspects of transformation programs, with particular focus on change management and culture.

Executive summary



Leading upstream oil and gas companies are focusing on operational excellence (OE) as a way to manage rising costs and safety risks. But though most companies already have OE frameworks in place, their plans often don't meet expectations — they fail to fully address the behavioral changes and emotional commitment needed in the frontline workforce to sustainably achieve operational excellence.

A solution may be close at hand. Strategy& has found that in every company is a group of frontline leaders superior at making emotional connections with their staff and motivating them to achieve better business results. Moreover, these skills can be taught and replicated. By identifying and leveraging these “pride builders,” oil and gas companies can build an enterprise-wide network of informal leaders who will motivate employees to deliver operational excellence over the long term. Done right, pride building moves employees from merely complying with OE requirements to being committed to OE and their company.

Operational excellence moves front and center

The oil and gas industry is going through a fundamental transition. For decades, companies have rushed to grab acreage and ramp up production as quickly as possible. The costs of new technologies, as well as the costs associated with acquiring land and oil and gas drilling rights, have increased significantly. Companies have also been more and more concerned with safety — ensuring that both workers and facilities are safe from possible accidents and spills.

Until now, concerns about speed and volume trumped worries about costs. But now — with about 60 percent of the world's oil and gas fields mature, and with new reserves in increasingly remote and costly locations — unit costs are rising fast. Executives, who once focused on volume as a measure of success, must now focus on operational excellence (OE) as a means of managing costs and safety risks in order to deliver shareholder value. And though OE programs can have benefits for companies in almost any industry, such programs lend themselves particularly well to solving the oil and gas sector's current challenges.

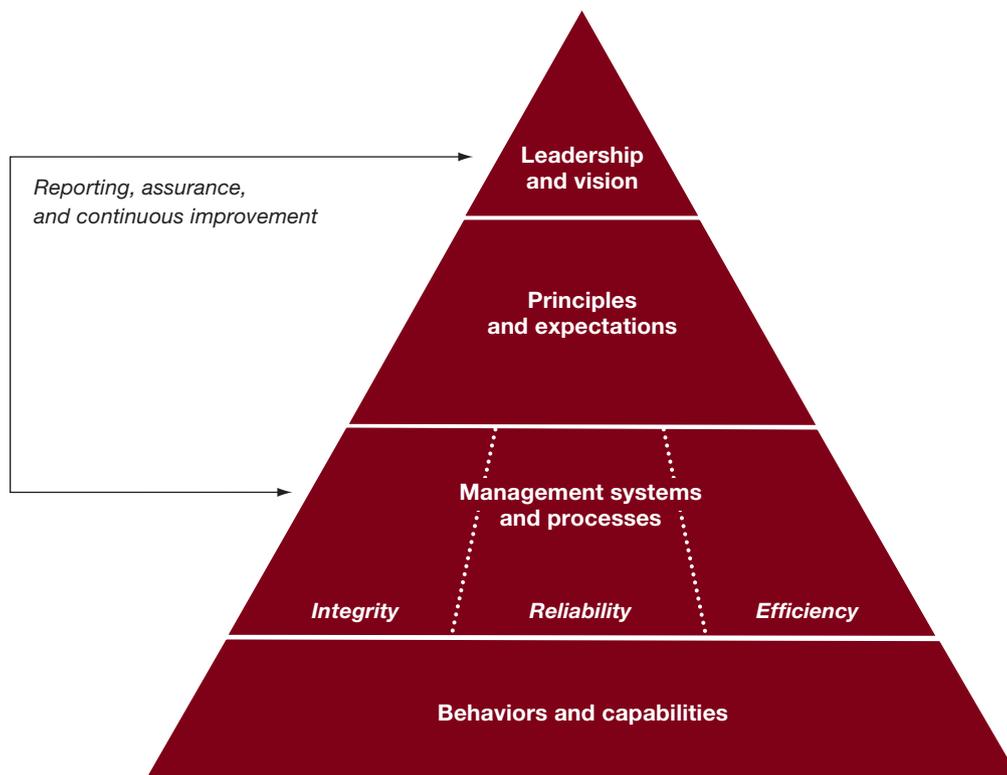
In the industry, best-practice OE frameworks are built on traditional asset management practices, integrating the management of the asset's integrity, reliability, and efficiency (*see Exhibit 1, next page*).

- *Leadership and vision* elevate integrity, reliability, and efficiency to the senior leadership level to ensure that OE issues get sufficient attention. It also provides a clear vision of the way a company works.
- *Principles and expectations* establish a baseline of company-wide conduct, but allows managers the flexibility to adjust to specific circumstances, as long as overall principles are observed.
- *Management systems and processes* ensure procedural consistency in high-risk operating environments, while also encouraging improvements and innovation.

Executives must focus on OE to manage costs and safety risks.

- *Reporting, assurance, and continuous improvement* systematically report failures and other incidents to help managers better understand performance issues and identify improvement opportunities.
- *Behaviors and capabilities* engage employees and encourage behaviors that will drive improved performance. They also enable the operations and maintenance staff to identify and build new capabilities to support operational improvement.

Exhibit 1
Key elements of an OE framework



Source: Strategy& analysis

The challenge of behavioral change

Dealing with frontline behaviors and capabilities — the base of the OE pyramid — has proven especially vexing for companies. The fact is that getting employees to change their behaviors and adopt new ways of operating is incredibly difficult. Most companies respond to this challenge by issuing detailed guidelines for employees about what to do and how to do it. Unfortunately, these guidelines are never exhaustive, are often too removed from the reality of day-to-day field operations, and fail to uniformly change behavior.

Some firms — those more tuned in to this challenge — have invested deeply to influence behavior. They've found that a combination of motivating employees and improving transparency and accountability helps to ensure compliance. Active engagement with employees and providing clarity on roles and responsibilities at all levels in the organization are key to building an OE culture.

However, even the companies following best practices make some common mistakes when attempting to achieve behavioral change in the front line. First, the human resources aspects of OE programs tend to be reactive — for example, these programs measure levels of operational compliance and determine consequences for individuals, rather than addressing underlying causes of poor operational performance among the staff.

Second, they typically adopt a blanket approach to people issues, rather than tailoring interventions to the local context. For example, in places with unconventional sources of oil and gas like shale gas deposits and tar sands oil fields, the focus may need to be more on process codification and standardization, whereas in more mature areas, a stronger focus on culture and behavior may be needed.

Finally, there is often reliance on external assessments and interventions to improve operational compliance, such as flying in teams of job coaches to a struggling asset. However, in our experience, there is usually significant potential in learning from existing best practices and harnessing the managerial and motivational capability that we believe exists in every organization.

Motivating employees and improving transparency and accountability help to ensure compliance.

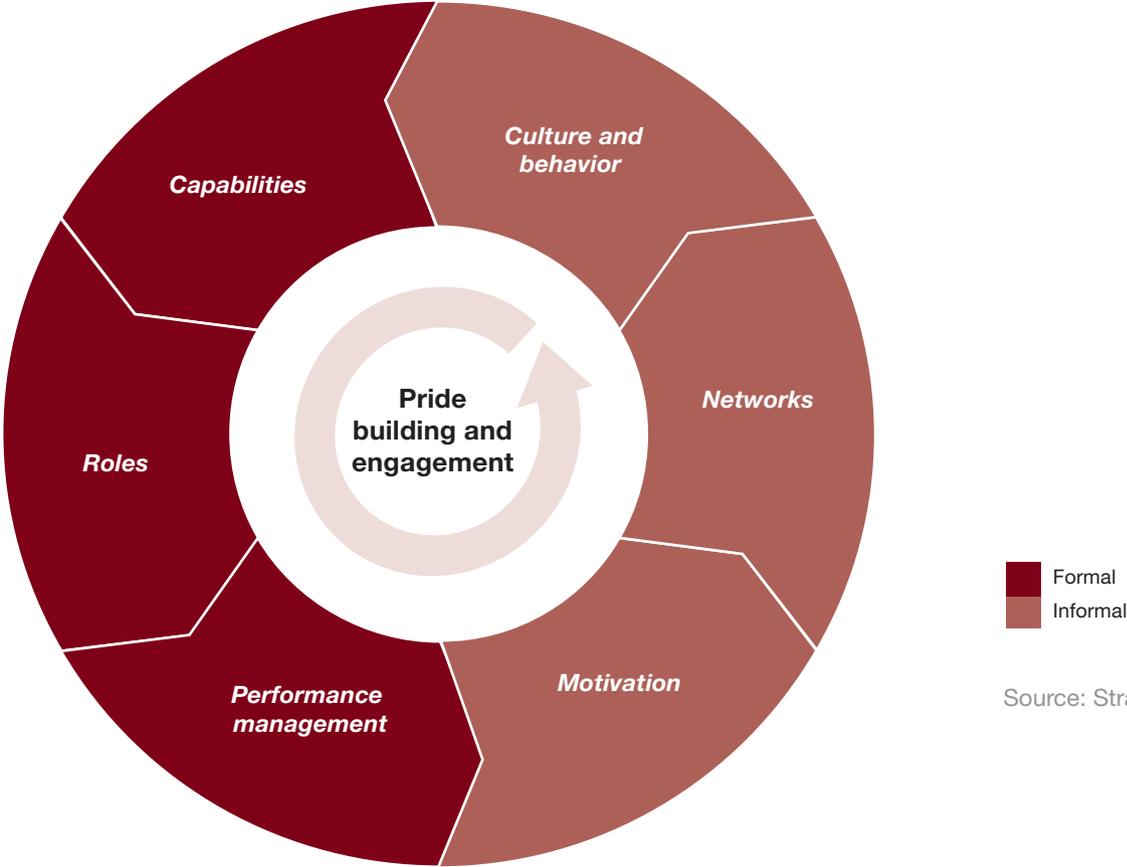
The pride-building capability

The failure to harness existing capabilities is a huge missed opportunity that we believe holds the key to successfully changing employee behavior and corporate culture. As in all industries, oil and gas companies have individuals who are superior at connecting with their colleagues emotionally and motivating them. These pride builders — as we call them — are homegrown experts in motivation and behavior change, and they can help their companies develop a pride-building capability that is relevant to the local context and sustains operational excellence over the long term. Companies themselves must also give pride builders a greater voice and opportunity to spread their insights and energy.

Developing a pride-building capability is worth the effort. As previous Strategy& analysis has shown, pride in one's work is a great motivator — even greater than money. The pride-building capability bridges the gap between business strategy and execution by aligning formal organizational levers, such as capabilities, roles, and performance management, with informal levers such as motivation networks and cultural norms, thus translating official directives into on-the-ground behaviors (see *Exhibit 2, next page*).

Pride in one's work is a great motivator — even greater than money.

Exhibit 2
Formal and informal levers



Source: Strategy& analysis

Finding your pride builders

In practice, pride building is a way to identify the people within your organization who are best at motivating their teams to operate in the right way and to spread their behavior as role models to others through exposure, demonstration, and experiential learning. In the context of OE, it can be used to encourage improved compliance and can be applied across business units and geographies.

There is no standard approach to pride building, as the program that will work for each company depends on the local context — where the company is, what kind of oil or gas it's drilling for, what its challenges are. So it's the pride builders themselves that will shape a given company's program, which is why it's so important to cultivate the right people. And once they're identified and trained, they can distill that capability and teach others.

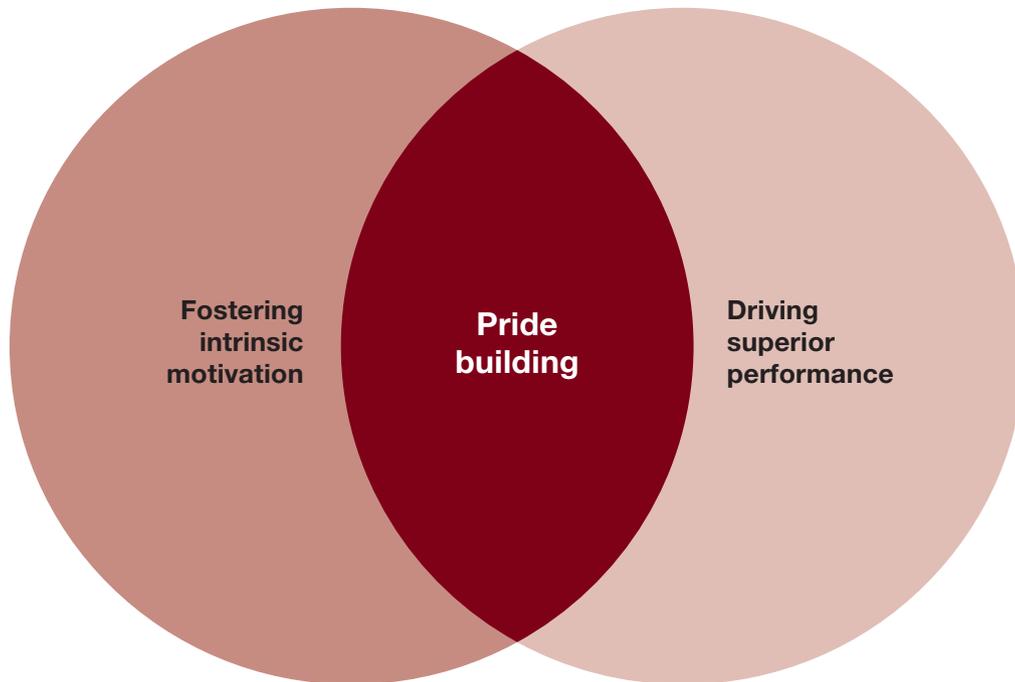
First, you need to find the pride builders among your workforce. They are highly respected individuals who deliver great results by creating an emotional engagement between colleagues and their daily tasks. These informal leaders tend to be good at sharing useful information with colleagues in different parts of the organization, even when this is not part of their job description. They don't have to be employees with high potential for advancement, nor are they necessarily popular among their peers. And although they can be found at any level in the organization, they tend to be in frontline supervisory positions where they act as role models for those around them.

They cultivate talent by getting to know everything about their colleagues, including personal goals and motivations. They show others how their work connects to the bigger picture, encouraging innovation and making intelligent day-to-day decisions in the front line, while also fostering a culture of continuous improvement (*see Exhibit 3, next page*).

Given the potential usefulness of these pride builders, companies need to establish a way to identify them and leverage their expertise to kick off the pride-building effort. Typically, we advise clients to solicit nominees — usually through an anonymous survey. The nomination

*Pride builders
show others
how their work
connects to the
bigger picture.*

Exhibit 3
Behaviors of successful pride builders



Source: Strategy& analysis

pool must be broad and deep, reaching far into the organization to find candidates at or very near the front line. We recommend that companies conduct 360-degree reviews of these candidates to understand how they instill pride, bringing pride-building behaviors to life with specific examples.

Once identified, pride builders can begin to tackle frontline challenges — for example, identifying performance improvement opportunities, working with colleagues to identify the behaviors most critical to deliver these improvements, spreading these behaviors across the enterprise, and providing real-time feedback to leadership on issues that block progress. Pride builders typically achieve these aims through mentoring, workshops, peer-organized quarterly meetings, and creating forums for frontline supervisors to share their experiences and advice with one another. We have found in many cases that it is useful to create an advisory council to connect pride builders with senior leadership, to coordinate their rollout activities, and to monitor their progress.

We recently worked with a client that faced the challenge of cultivating the pride builders in its workforce in a way suited to its unique needs. The company, a leading international manufacturer of offshore and onshore wind turbines, faced significant customer penalties if it failed to deliver 50 blades by a date agreed with its key customer.

Internally, many employees were skeptical of the company's ability to deliver this order, based on its recent track record and the current situation at its factory in Western Europe. They faced significant health, safety, and environment concerns; bottlenecks in key quality processes such as scanning; complex repairs made necessary by nonstandard work; low competency and motivation of white- and blue-collar employees; low level of shop floor control and organizational drive; and an embedded culture of low performance.

To turn the factory around and make the extremely challenging deadline, we applied a holistic, pragmatic, and frontline-focused approach centered around the high performers on the shop floor. We encouraged the client to use the urgency of this crisis situation to generate momentum and create awareness of what a high-performance team can achieve and how much energy can be released by pride in success.

Several elements were key to the effective frontline engagement used in this crisis situation:

- Identifying the people who want to improve a challenging situation and building a team from among these individuals, while also separating out the people who show a negative influence
- Building self-esteem and pride in small steps by communicating achievements day by day and shift by shift
- Focusing on simple tools and hands-on methodologies — a crisis is no time for fancy ideas or theory
- Communicating expected behaviors clearly and intervening immediately in case of deviation

By following this approach, and using on-site, face-to-face coaching support, the company was able to turn the situation around. It met the delivery deadline and avoided a penalty of several million dollars. The team also adopted many of the ideas and — over a period of several months — made them its own. The organization is now working through the lessons learned and is assessing how to use them to instill a sustainable performance culture, without requiring crisis to bring about change.

Case study #1: Reducing deferred production and operating expenditure

An upstream oil and gas company operating in Asia was struggling with low growth because of insufficient new discoveries and developments, combined with a rising cost base associated with fields that were in decline and were producing more and more water. Several change efforts had been tried but none had had any material impact on the performance of the operating company.

The corporate center to which this operating unit reported finally got involved and co-created a new approach to turn the unit around. Two elements stood out in how this corporate intervention was executed: First, a significant number of employees of the operating unit were interviewed to understand what the real issues were and why previous efforts had failed to have any impact. And second, a selection process was carefully run to identify a team of pride builders who were tasked with turning the situation around. Both of these elements had major positive consequences.

The interview findings confirmed that the unit had been managed for too long in a traditional, top-down, and purely functional fashion, without sufficient attention paid to what the staff deeper down in the organization was observing and proposing. Worse, the functional focus totally ignored the reality of tough

production-sharing contract terms, all of which negated the potential profits of many investments that had initially seemed highly attractive. For instance, major modifications were made to offshore facilities that were very close to being relinquished back to the host government.

The pride builders became the heroes of this story. They were first encouraged by noting that senior people in the corporate center cared about doing the right thing, which gave them courage to speak out and challenge their peers and supervisors. These pride builders also developed unconstrained, clean-sheet designs for the production and maintenance organization, which had been suffering from highly ineffective interfaces between the teams looking after reservoirs, wells, facilities, and the commercial needs downstream. There simply had been no clear ownership of the entire oil and gas conduit from the reservoir to the flange. Many more areas were improved thanks to this pride-building approach, including local talent development, exploration and field development, and contractor management.

Not surprisingly, most of these pride builders have accelerated their careers by extending their influence to encourage behaviors that have a lasting effect on performance.

Case study #2: Spreading new behaviors at a national oil company

An upstream business unit of a national oil company — with an extensive portfolio of field development and production operations — recognized that different departments were not communicating or collaborating sufficiently on capital project delivery, leading to delays in new production.

This problem was initially attributed to the company's organizational structure, which was firmly split along functional lines — reservoir engineering, production operations, drilling, project management, and so on — encouraging silo behaviors. To break these silos the company established cross-functional asset teams, bringing together staff members from different technical departments into a single team focused on optimizing the life cycle of the asset as a whole.

However, the asset concept did not deliver the anticipated improvements in delivery time on capital projects. Indeed, in some instances, the team concept itself was found to be a cause of further delays, as team members sought approval from their technical line managers before agreeing to actions in the asset. It became apparent that the cultural norm of functional loyalty was so strong that it continued to rule over the lines and boundaries of the new organizational structure.

To counter this, the company's leaders approved a pilot that used pride builders to model certain behaviors — such as collaboration using critical decision making — that would unlock the potential of the assets. Using a recent field upgrade project as an example, a small group of cross-functional pride builders worked together to identify the sources and causes of delays along the development process. Their fact-based, forward-looking recommendations included adjusting process flows, clarifying roles and responsibilities, and defining a need to involve others earlier in the project. The clear cross-functional consensus of the team members compelled their managers and the others to make the change happen. Subsequently, the time to deliver similar projects has been considerably reduced.

This effort demonstrated how changing a few critical behaviors can establish a mind-set of accepting change and continuous improvement. Modeling efficient behavior, collaboration, and critical decision making — especially when they lead to better outcomes — can build a workforce's pride in the company. In this case, it provided the momentum to develop and implement the tools to formally ingrain an OE culture in the assets.

Case study #3: Reducing refinery downtime

In many instances of working with clients, we have seen evidence of the benefits of a pride-building capability. The manufacturing division of a supermajor company significantly expanding its production needed to improve the reliability of its refineries, and viewed the performance of its front line — where the majority of the work was done — as a key factor for success. Prior formal efforts to change the mind-set and behavior of the frontline workers had been ineffective, and recent ownership changes at some of the sites had created a change-resistant culture. In addition, the highly process-oriented management team struggled to get traction in an intensely local operating environment.

The division launched an investigation into the large amounts of unscheduled downtime in its downstream operations. The findings were somewhat startling: 87 percent of unscheduled downtime was caused by equipment failure, and — not coincidentally — the company lacked adequate policies and procedures to identify equipment problems. For example, managers had no policy to walk the floor regularly to identify current and potential problems; employees were not incentivized to report all potential threats; and communication between operations and maintenance was poor. Making matters worse, employees believed that problems would go unaddressed, even if they were reported.

In response, the company launched a program to identify frontline pride builders, and tasked them to work together to identify the behaviors that would improve performance. They were also asked to find a way to integrate these behaviors into the daily actions of frontline workers so that they could use them as part of their routine workflow.

Among other recommendations, this advisory council identified better communication and coordination between operations and craft as being vital to better equipment maintenance. With this in mind, the council proposed joint morning meetings to prioritize work, joint scheduling, and joint resource allocation; introduced a new protocol for craft to conduct preliminary investigations with operators in the field; and suggested mechanisms for the two functions to review the previous day's work.

Based on these recommendations, the company rolled out a pilot program at five of its sites, and the results were dramatic. There was a 12 percent decrease in schedule-breaking work (e.g., emergency tickets), which made craft workers more productive; there was a 38 percent drop in average work order costs, thanks in part to a 76 percent drop in overtime; and there was a 47 percent reduction in backlog.

Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task. Whether you're

charting your corporate strategy, transforming a function or business unit, or building critical capabilities, we'll help you create the value you're looking for with speed, confidence, and impact.

We are a member of the PwC network of firms in 157 countries with more than 184,000 people committed to delivering quality in assurance, tax, and advisory services. Tell us what matters to you and find out more by visiting us at strategyand.pwc.com.

www.strategyand.pwc.com

© 2014 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. Disclaimer: This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.