

Organizational Models Shift in Oil and Gas Exploration & Production

Principles for Success with a Hybrid Model

As asset complexity intensifies, concerns about technical talent and quality control are prompting firms with large E&P operations to change the way key business units pursue their goals. New research by Oliver Wyman confirms that new models of organizational structures are being developed and implemented throughout the industry.

In a mature industry built around asset-based management, a new hybrid model is emerging that opens the door to benefits associated with function-based management. However, to properly exploit the strengths of these new function-based models, E&P firms must mitigate the inherent weaknesses of these structures. This report identifies the process and practices that raise the odds of success in making this organizational shift.

incorporated elements of functional structures into their management models. Some are moving toward a new hybrid arrangement that combines elements of functional and geographical structures.

The trend to adopt more functional organizational designs could accelerate further as some firms communicate the success that can be attributed in part to new management models. With more firms adopting functional orientations, the top-performing companies will be those that take extra steps to implement processes and practices to complement any changes in management structure. At the same time, these companies will be wary of making aggressive changes in their management models that could run counter to ingrained corporate cultures.

Our study found that E&P companies are revising their management structures to pursue five advantages associated with functional orientations, summarized on the left side of Exhibit 2. These natural strengths of function-based models also tend to be the natural weaknesses of asset-oriented models, and vice-versa.

Four Effective Mitigating Practices

As companies move their organizational structures toward a more functional orientation, they must find ways to compensate for inherent weaknesses that accompany the new models. E&P companies in

our benchmark study appear to recognize this fact, and have implemented or are developing processes and practices to mitigate weaknesses associated with functional orientations. Among the most effective examples are the following:

■ Asset performance accountability.

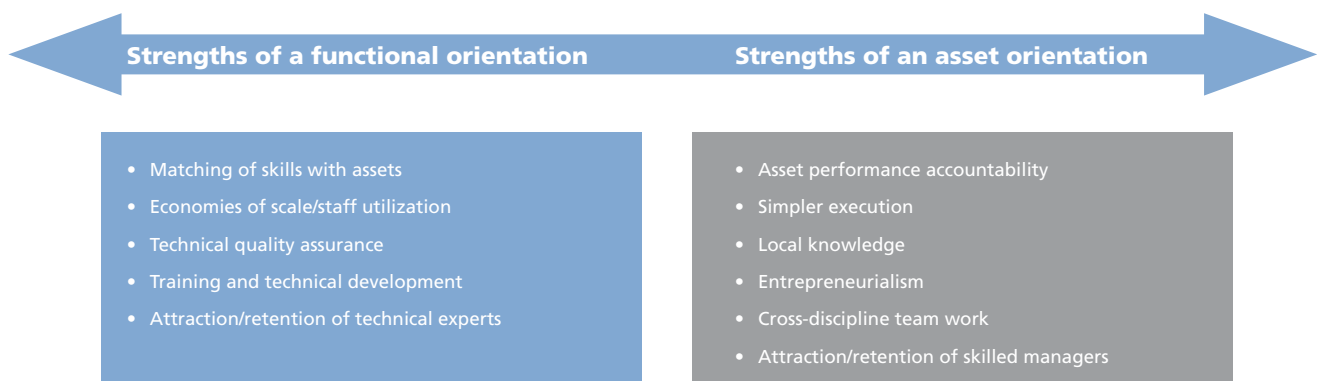
Staff rewards and asset performance should be directly linked. To ensure that this happens, one company in our study creates synthetic P&L accountability for its country general managers and gives them annual production targets, operating budgets, and capital efficiency targets. These responsibilities help mitigate the risks associated with lack of asset accountability within the functionally organized divisions. In particular, they promote, prioritization of prospects within the area, coordination of E&P efforts within the country, and general oversight of country activities.

■ Execution of handoffs.

Functionally oriented units can present challenges in communication and clarity of responsibility during handoffs between units. One company in our study uses a staged, negotiated hand-off process to smooth the transition from exploration to development and from development to production. Handoffs range in length from a few months to more than a year, and typically engage country managers and liaisons from divisions within the

Exhibit 2 Natural strengths of organization structures

Alternative orientations exhibit natural strengths, and the natural strengths of one tend to be natural weaknesses of the other.



Source: Oliver Wyman research and interviews

company. Focusing more attention on handoffs reduces investment risk by forcing negotiations and approvals from both technical experts and regional managers.

■ **Adaptability to industry change.**

Walled-off units with highly codified standards and specialized staff tend to be less capable in responding to industry changes or evolving operational needs. Moving quickly to capture new business opportunities that arise from events such as the announcement of plans for a new pipeline in a region is typically more difficult for a functionally oriented organization than for one oriented around its assets, where asset leaders always wear their “business hats.” One company in our study mitigates this weakness by providing frequent and extensive economics training for most of its technical staff.

■ **Attraction and retention of skilled managers.**

Career paths and career development can depend on specialized technical abilities. Four of the companies in our study offer dual career paths that allow employees to match job tasks with personal goals. Three companies offer special management training programs to augment the skills of highly motivated employees, and two firms provide top-performing managers with a high degree of regional mobility.

How can E&P companies start the transition to these new functional or hybrid management models? Our experience working with E&P companies in this area suggests that a six-step process substantially raises the odds of success in organizational transformation. It may be useful for the process to be led or supported by an external consultant.

1. Define the imperatives.

It’s important to take a holistic view of organizational structures and recognize how making even minor changes in one area of a process can affect other areas of the enterprise. Understanding how the various parts of a company fit together is the vital research needed up front.

When companies ask us to help identify a new way of structuring their E&P divisions, we always work with top management to gain a complete picture of the company’s business imperatives. Equally important, these sessions help foster a shared perspective of the company’s strengths and weaknesses, so that all members of the senior executive team come to agree on the need for a new management structure for their operations.

2. Benchmark competitors.

Take stock of competitors and their management systems, to confirm the business processes and success drivers that are currently employed by industry-leading firms.

It pays to develop in-depth profiles of several primary competitors with large operations. When possible, conduct extensive interviews with employees and past employees of these companies; that survey data should yield a detailed picture of how various operations are structured. The depth of the research allows you to identify not only which systems are in place at each company, but also which systems earn the strongest endorsements (or harshest criticisms) from front-line managers charged with operational responsibility.

3. Assess the internal landscape.

This step delves into the secondary management levels of the company to define how all the gears and mechanisms work. Via direct interviews and surveys, assess core capabilities and identify what managers see as the primary competitive advantages of the enterprise. Through interviews, senior executives should record their views on which processes are successful, and which deserve to be reassessed or revised. These interviews also open windows to the leadership’s thinking on which areas may need to be protected, and which are sources of irritation.

At the conclusion of this phase, you should have a nuanced picture of the inner workings of the enterprise—and this may differ in important ways from

the picture the leadership team had in mind prior to the exercise. The distinctions between these views can help point companies toward valuable solutions they may not have identified without this research.

4. Start to redesign business processes.

At this point, design rough drafts of potential organizational models involving different sets of elements. Workshops can be the forum to debate the processes required for each of these models, with follow-on analyses to help identify which people and job functions will be required to fully implement each model. The direct involvement of key managers at this stage helps promote a sense of ownership for the transformation effort and its outcomes.

5. Refine the chosen design.

After one management model emerges as the favorite of senior executives, the next step is to assess the risks associated with each process required for the new model. Outline specific structures determine reporting relationships. Make the business case for why the organization redesign makes sense and why the costs of implementation are likely to be outweighed by potential returns.

6. Plan, align, and implement.

With all elements of the new organization model complete and approved, the final step ensures that each constituency is properly apprised of the scheduled transformation. Establish transition timelines and road maps, appropriate communication vehicles, and use “change management” task forces to alert the workforce about what to expect. These preparations should help the new organizational model to integrate smoothly into the company’s operations.

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Management structures can have a profound influence on future results, provided they are carefully matched with a company’s strategic imperatives and unique ways of doing business. It’s critical to design an organizational model that precisely matches the goals and culture of the company.

By setting their controls to mitigate against the inherent weaknesses of functional orientations, even the largest asset-based E&P companies can employ function-based management to open important new avenues for efficiencies and improved business results. ❖

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We would be pleased to discuss with you our perspectives on managing strategic risk. For more information, please contact your Oliver Wyman account representative, or one of our energy team leaders:

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