

Managing in the middle

In most oil and gas companies, 80% of E & P professionals account for less than 20% of profits. Unfortunately most geoscientists, engineers and economists contribute very little to profits even though they may work just as hard as the special few who map the best prospects, drill the successful wells and run the lucrative fields. And these figures should come as no surprise. Most geologists will admit to having worked on an exploration project almost certain to fail, most engineers have knowingly submitted plans for pointless wells and most economists have been pressured to value projects, already knowing that they will not fly.

The reason's simple. The E & P professionals that contribute the most to an organisation work the best assets. Even the most skilled in our ranks are hard pressed to produce hydrocarbons from a barren area! In most organisations it falls on the E & P managers – the middle managers - to ensure that their staff are engaged on fruitful occupations, on assets that have a greater than even chance of performing well. E & P managers control expenditure, directing resources to where they really are needed. Or at least that's the aim.

Good E & P management is hard to find

There seems little doubt that the ability to effectively manage E & P assets is the most important skill needed for profitable activity in the upstream oil and gas industry. However it's a sad case that many professionals become E & P managers not because of their skills in buying and selling assets but because they were, in their younger days, successful at evaluating and using them. By sheer luck a few have natural business skills but most, at least initially, have scant training and a poor sense of focus.

It is not necessarily the E & P manager's fault. One of the biggest failings in companies is the belief that assets and acquisitions should always be managed by groups - new ventures or new business groups, exploration groups and operations groups. Individuals converse only when an acquisition has been consummated or a service is required. In fact even the most enlightened companies usually retain asset managers and new ventures managers who have defined but quite separate targets. This flaw in the structure of companies leads not only to a waste of resources but also to asset portfolios containing significant numbers of ineffective investments.

The critical skills – strategic management

The day-to day management of an E & P portfolio should integrate the management of geological, engineering, and financial operations with the management of acquisitions and divestments. E & P managers should take account of all potential assets, even those that are merely the twinkle in a professional's eye. Furthermore sales of non-performing assets are as integral a part of operations as are acquisitions.

Effective control of a portfolio requires effective strategic management. The dictionary definition of strategy is “the art of war concerned with the conduct of campaigns”. This includes the choice of operations to be attempted and the act of getting forces into favourable positions to attempt them. Does such a definition apply to the management of an E and P portfolio?

There are many types of investments that can make profits – the act of identifying them is not the task - it is their value that matters. The real issues are, firstly, which types of investment are best for a company and, secondly, how efficient the company is at exploiting them. First is the “choice of operations”. Second is the act of “getting forces into position”. Strategic management of an asset portfolio can thus be compared to tactics in war.

Being able to captain a platoon is more important than being able to shoot a gun; being able to manage an E and P business stream is more important than being able to interpret a seismic record. Plans must be made with objectives that anticipate the critical issues of the future – a future that must be based on forecasts. “Critical management” is therefore, in the context of managing E and P, *“the actions involved in running a business stream in its totality, aware that current decisions will have future impact”*

Emphasising the practical issues – critical management

Exploration managers who audit well proposals, engineering managers who fly around the world checking metal and economists at lunch with auditors are not critical managers. Critical management entails necessary change – clear objectives and a strategy to achieve them. It is the practical way to handle an E & P business stream and good critical managers, whatever his or her background, are driven by six core skills that can be learnt:

- Understanding the management challenges ahead;
- The ability to define issues that matter;
- Common sense technical and commercial evaluation;
- Making the most of communication skills;
- Appreciating the organisational forms that achieve different objectives;
- Classifying options to decide what to invest in, where and why.

Good management produces more oil and gas than good science. And that includes geology, includes engineering, ...includes anything. Unless practical management skills are taught to the middle managers, resources will continue to be wasted.

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