

Client Profile

MULTINATIONAL OIL COMPANY ACHIEVES DRAMATIC TURNAROUND IN DECLINING MARKET

BACKGROUND

Four years ago, the senior management of a major multinational oil company realized that the development of oil fields on a profitable basis—and its global leadership—had become increasingly dependent on breakthroughs in technology, management, operations, and industry alliances. They also saw that such breakthroughs would require radical departures from traditional thinking and ways of doing business.

The CEO set the company's course by articulating the belief that "what has or has not been achieved in the past does not set a limit on what can and will be achieved in the future." Success, he determined, would require dramatic demonstrations of setting and meeting unprecedented objectives and levels of performance not previously thought possible within the culture.

The following are some of the critical initiatives with which individuals and groups within the corporation proved that the "unthinkable and impossible" could in fact be achieved. These successes served to demonstrate that the many urgent business challenges could in fact be met. The resulting turnaround has represented billions of dollars in corporate revenue to date.

In each instance, JMW Consultants was engaged to help management and employees consider, commit to, and ultimately realize key breakthrough goals. This typically involved providing new tools for innovative thinking in addition to such services as project formulation, meeting and conference facilitation, management education, and executive coaching.

A COMPANY WIDE COST REDUCTION INITIATIVE

With oil prices lower than predicted, the company was hard pressed to generate an additional profit on each barrel of oil produced. Research showed that the extra profit could only be realized through a dramatic reduction in production costs.

The CEO identified and committed to a specific cost reduction target on each barrel of oil—a target most thought impossible at first. Management and employees from every organization—including operations, asset teams, and all technical disciplines—were asked to participate in achieving the cost reduction objective.

They created initiatives, proposed programs, and restructured and consolidated organizations to reduce costs. All strategies were considered; nothing was viewed as sacred; management had to overcome their own skepticism, confusion, and considerable employee resistance.

But with the first improvements, momentum grew. "We began to view problems in new ways," said a general manager. "There was a lot of excitement about charting the unknown."

Within a year, the company had produced 76 percent of the desired cost reduction; they then achieved the "impossible" per-barrel cost reduction the following year.

OVERCOMING BARRIERS TO DEVELOPMENT

The company found that its procedures for the development of large fields did not work well when applied to the development of small and medium size fields. Over-engineering smaller fields or applying the traditional development process with many layers of approval kept these projects from viability.

The challenge was to develop a specific small field which the client owned jointly with other companies. For over 15 years, the company had failed to realize the value of this asset because the partners could not come to an agreement on a strategy that was economically attractive to all concerned.

In its quest to develop new thinking which would enable profitable development of this and other smaller fields, the company established a breakthrough effort. A single multi-disciplinary team was formed, fully accountable to cut through the bureaucracy and deliver a "win/win" scenario with acceptable rates of return and necessary constraints on costs. Not only did they succeed, but in a timeframe originally considered "unrealistic" by all parties.

Later, the team instituted an unprecedented approach in which vendors became "partners" in the venture, and were selected not just on price but on the basis of their willingness to join in the commitment to cost savings and share the risks and rewards. The ability to establish partnerships with suppliers in this way has served as a model in the industry, showing how alliances can be effective in overcoming challenges.

COST REDUCTIONS SAVE DECLINING FIELDS

Another of the critical challenges facing the company was declining production of major oil fields in one geographical sector. With one of these assets, the company needed to find a way to keep the field profitable as production diminished.

The first step was to examine and then re-engineer fundamental processes, to align them with the company's primary business focus of increasing profitability through a lower cost per barrel.

One step was a "zero-based" study that yielded a platform-focused management approach in which the field would be run as four separate business entities, each with its own profit-and-loss responsibilities.

In a one-year period following implementation of this approach, operating costs were reduced 17 percent saving \$30 million annually. The company now estimates shutdown date for the field will be extended seven years past what had previously been predicted. Most significantly, cost per barrel was reduced by two-thirds.

Another field in this region was experiencing declining production and failure to deliver the expected return from capital investment.

The client reports that within the first year, through a variety of strategies and projects, lost time incidents fell by 50 percent while production targets were exceeded and production costs were reduced 29 percent.

UNPRECEDENTED ALLIANCE MAKES GAS FIELD REWARDING FOR ALL

Based on using standard procedures, the original estimate for development of a particular field was \$75 million. A computer analysis indicated that the project could not possibly be done for less than \$62 million.

Trying to find a way to develop the field for less cost resulted in another unique alliance approach: the oil company, its partner, and its major contractors established a novel risk/reward sharing program which helped reduce capital costs and shorten timeframes while still meeting quality, safety, and operation expenditure requirements. Together, the alliance team made a commitment to bringing in the project for \$57 million—a savings of 24 percent off the original estimate.

The installation of the platform jacket and topside was completed in only 73 hours—less than half the scheduled time. The weld quality on the superstructure has been tested and rated as two times better than any other platform erected by the company that year. The offshore team worked from the rig, eliminating the need for daily hook-up flights or an accommodation barge, thereby achieving another major savings.

The field is now on target for development at a figure below the team's \$57 million goal which the computer analysis said was "impossible." In addition, the field will begin producing gas for sale only 18 months after project sanction. "Our partner's full participation in the project has been a significant factor in its success," said one executive.

MANAGING THE FUTURE

The corporation built an internal organization designed to support the various change efforts taking place throughout the organization.

The change support organization engaged a variety of internal and external consultants, experts, and educators. Support services offered to management and employees included consulting, management education, conference planning and facilitation, and coaching.

One innovative education program was designed to meet the needs of key managers accountable for delivering measurable performance improvements which exceeded anything accomplished previously. "The Manager of The Future" helped such individuals leverage their capacities beyond existing levels of competence and know-how, by developing new behaviors and skills for eliciting extraordinary creativity, commitment, and action. Course work required real-time projects and achieving significant business objectives.

A sponsoring executive said, "We now have a group of people who have an extraordinary capacity to deal with change. They have ways of dealing with adverse circumstances other than complaints. They see the possibility of bringing about organizational change and accept ownership and responsibility. They are role models for taking on extraordinary projects."