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Collaborating for success

Effective and innovative collaboration is critical in maximizing the potential across the oil and gas value chain

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“Coming together is a beginning, staying together is progress, and working together is success”

(Henry Ford)

Background

“There is too much emphasis on the way we have always done things... Everyone thinks that the Norwegian oil and gas industry is leaning forward, but we are not” (Supplier)

The significant cost inflation in the oil and gas industry over the last decade has had serious consequences for both customers and suppliers on the Norwegian Continental Shelf (NCS). Market fluctuations in the oil price have put further pressure on companies' income, margins, and on maximizing shareholders' value.

Challenges and solutions go beyond organizational boundaries. Many of the business challenges behind the cost inflation span organizational boundaries, sometimes even the whole oil and gas value chain. Solutions too, must go beyond the organizational borders and happen at the intersection of two or more players. Industry collaboration is therefore recognized as a key enabler for solving a number of cost challenges.

Challenges with improving collaboration. Despite increasing focus on collaboration, working practices on the NCS have not changed significantly over the past few years.

Industry leaders we have spoken with, frequently acknowledge that leading change in this area is challenging, both internally and across the oil and gas value chain. Leaders have repeatedly said that to make change happen there is a need for new and innovative ways of cooperation as well as knowledge of effective tools and actions.

Front-end loading and leadership. In our experience collaboration can only be achieved with sufficient investment in front-end loading and leadership transformation. Instead of focusing solely on processes and protecting boundaries of their own organizations or seeing interfaces as a problem, leaders in the oil and gas industry need to see value in cross-organizational boundaries. Operators and suppliers need leaders who understand collaboration and are able to build a collaborative culture both within and between companies.

Focus: Collaboration in a contract lifespan

Lifespan of a contract. Collaboration takes place in various forms, on various levels and for various reasons. As relationships in the oil and gas value chain are impacted by and formalized as contracts, this context is relevant in understanding collaboration issues and solutions.

The need for and the nature of collaboration differs throughout the contract lifespan (Figure 1). Thus, the uniqueness and objectives of the different phases need to be well understood and accounted for when addressing barriers and challenges that limit efficient collaboration.

In this article, we will highlight some of the key challenges experienced within the respective phases. We also recommend practical steps that will enable organizations to develop effective ways of improving collaboration.



Figure 1 - Typical phases of an oil and gas contract

Methodology.

The findings and recommendations presented in this paper are based on our experience from working with operators and oilfield services companies primarily on the Norwegian Continental Shelf. We also draw on the findings from in-depth interviews with 30 industry leaders. All respondents had the opportunity to share their views on collaboration in the Norwegian oil and gas industry in general, and in the context of their current contracts and organizations.

Our conclusions and recommendations build on this insight and are supported by our personal experience as leaders in the oil and gas industry as well as other industries.

“The key point in disciplined collaboration is to start with the end in mind: the goal of collaboration is not collaboration, but better results... you should only collaborate when it is the best way to improve performance”

(Morten Hansen, Berkeley and INSEAD)

Stage 1: Strategy, tactics and pre-qualification

Breaking new ground

Investing in sufficient front-end loading is vital to ensure sustainable contract profitability. In this phase the key focus should be on innovation and exploration of new ideas, solutions and partnerships as a basis for mobilizing and unlocking the full potential of the value chain. Relatively few formal limitations in this stage create a favorable context. To get the process off to a good start and establish a platform for collaboration, it is important to lay the groundwork. This implies companies and people getting to know each other in a structured way where goals, roles, and boundaries are defined and maintained.

The experience is, however, that collaboration is limited and ineffective in this phase due to a number of challenges (Figure 2). Lack of clearly defined vision for the contract in question as well as for collaboration between all involved parties are some of the central problems. Many companies experience also challenges with establishing arenas that enable good information flow and building trust.

The idea of successful collaboration in this phase is to foster perspective-taking across groups and organizational boundaries to clarify assumptions, increase knowledge exchange, and facilitate innovative thinking. Mutual respect creates dialogues and builds intergroup awareness, positive regard, and a deeper understanding of both similarities and differences. This is instrumental to effective negotiations, learning and decision-making.

Planning and executing key enablers in Figure 2 will provide the necessary information and perspectives to execute the formal contracting processes. This is an important foundation for making high quality decisions on strategy and way forward.

“There are unrealized opportunities in the supplier market that operators haven’t sufficiently utilized... This is often due to inadequate planning and understanding from both customers and suppliers”
(Customer)

Stage 1: Strategy, tactics and pre-qualification

Breaking new ground



Key challenges

Lack of clear vision and effective strategy for collaboration between companies

No clear picture of success. Focus on narrow individual agendas. No common view of how to set the scene for collaboration and enable the organization accordingly.

Power imbalance

Customers do not encourage and/or accept challenge from suppliers. Suppliers do not have the courage to speak-up.

Missing effective arenas

Insufficient ability to facilitate cross-company meetings in order to exchange information and explore opportunities. Lack of deep customer insight.

Distrust

An inherent belief that the other party is or will be taking advantage. Sole focus on avoiding risk. Misunderstandings and miscommunication.

Lack of enabling leadership

No bridging of group boundaries. Not championing new ways of interacting. Leaders without capabilities to equip the organization with the necessary skills and perspectives.

Key enablers of successful collaboration

1. Articulate the vision for collaboration

Clearly describe the bigger picture and associated goals. Establish ground rules for interaction and develop a shared picture of the desired future state of how to collaborate with your customers and suppliers.

2. Set the strategy for collaboration

Be clear on decisions, information need and activities required to conduct the complete contracting process. Turn it into a tangible strategic plan.

3. Be clear on your value drivers

Articulate and openly share your drivers, needs and expectations. Avoid being too specific on solutions.

4. Establish the arenas

Invest in exploring potential partners with whom mutual benefit and value could be created. Use existing tools where possible (e.g. findcontracts.no). Conduct meetings, town-halls and workshops (multi and/or bilateral).

5. Engage the right people

Make sure end-users meet suppliers to ensure joint understanding of needs and requirements. Involve others and exhibit an open mind to alternatives, divergent views.

6. Lead the way

Be visible and take part. Demonstrate courage. Define the information, people and resources that are relevant to lay the foundation for good decisions. Demarcate clear roles. Empower the organization. Hold people accountable. Spend time with potential new partners.

Figure 2. Key challenges and key enablers for successful collaboration in stage 1

Stage 2: Sourcing (tender/negotiations)

Understand and carefully select your partnerships

Assuming successful completion of the previous phase, you now have a good idea of what you want, how you should contract this and who should be capable of providing the service. All potential bidders are clear on who you are and what you expect.

The focus of the sourcing phase is to communicate clearly the detailed requirements through a high-quality invitation to tender (ITT), establish clear evaluation criteria, conduct an effective and fair process, and select fruitful and sustainable partnerships.

However, the sourcing phase is often considered challenging and by nature is a more formalized process. Our research highlights a number of issues in this phase that frequently erode value (Figure 3).

The sourcing phase is critical to establish strong and profitable relationships and to build a strong foundation for execution of the work and contract. Yet the message from the leaders we have spoken with is clear: inefficient information flow between the people involved increases the risk of selecting the wrong partnerships. This can have severe consequences for several parts of the value chain.

Although sourcing processes are more formalized, a number of actions can be taken to ensure a successful collaboration and outcome. One of the most important solutions is to ensure involvement and accountability of the line leaders. This is particularly relevant in those cases where different individuals are responsible for the tender process, technical specifications, managing and using the contract.

“Collaboration during tender is strained... There is not sufficient openness, and both customer and supplier keep their cards close to their chests...”
(Supplier)

Stage 2: Sourcing (tender/negotiations)

Understand and carefully select your partnerships



Key challenges

Distance between end user and provider

End user needs, requirements and expectations are described, processed and responded to “by others”. Too strong and autonomous sourcing departments and intermediates. The right people are not engaged in the process.

Unclear and complex requirements

Copy/paste mentality. Attempt to avoid all risks. Lack of requirement standardization. Little understanding of the details.

Devaluing proactivity

Inability to articulate value of proactivity and innovation. Insufficient mechanisms to reward proactivity in the tender process.

Ineffective governance

Unclear, slow and poor quality challenge and approval processes.

Useless incentive mechanisms

Too complex. Directly conflicting. Not understood or felt.

Key enablers of successful collaboration

1. Drive accountability

Define clear roles. Engage and hold the line organization (end users) accountable for ITT and evaluation (“no escape clauses”).

2. Balance evaluation criteria

Include and weigh proactivity, innovation and collaboration.

3. Align and simplify incentives

Few but clear mechanisms. Secure joint understanding.

4. Go deep

Invest in conducting several in depth interviews by “the line of the line”. Get to know the people. Secure a joint understanding of requirements and expectations. Drive openness.

5. Test robustness

Use scenario-based approach. Explore sensitivities. Deepen understanding.

Figure 3. Key challenges and key enablers for successful collaboration in stage 2

Stage 3: Start-up

Build and empower the team

The sourcing phase is successfully completed and the contract awarded. Now what?

Some of the larger contracts in the oil and gas industry have characteristics similar to that of major businesses (Norwegian “Top 100”) in terms of risk, spend, number of staff, complexity and geography. The difference is that these businesses normally have had years to establish the culture and foundation for delivering outstanding results. In contrast, newly established oil and gas projects and contracts are expected to mobilize and perform in a matter of weeks. The challenge is immense and finding the balance between structural development and cultural development is difficult.

We noted that in the start-up phase most businesses focus on getting processes in place instead of building the necessary relationships between the right people. This is interesting because the majority of leaders we have spoken with admit that people, not processes, create value.

The quality of leadership is at the core of success in this phase and leaders are in a position to establish an essential ingredient in their

role. Time must be spent building relationships and sustaining credibility among a large number of peers and other partners. This credibility is based on the quality of information delivered, interpersonal relationship-building skills, and a track record of responsiveness and reciprocity.

Companies need to move away from gate-keeping leaders to boundary-spanning leaders. Gatekeepers tend to act as a point of contact and a consolidator of external sources of information for the team or department. Boundary spanning leaders tend to use broad interorganizational knowledge exchanges with a wide range of sources to bring innovative information to the organization and are able to draw more value from external and internal collaboration. Without this, leaders can become inefficient, destroy collaboration, and increase risks for the execution phase of the contract.

A well-planned and high quality contract start-up will serve as a solid foundation for a longer term relationship and boost value realization. When planned poorly, the start-up phase could introduce significant risk to both profitability and people. This could be avoided by focusing on the actions in highlighted in Figure 4.

Stage 3: Start-up

Build and empower the team



Key challenges

Unrealistic timelines

Starting before ready. Focus on manning.

Ineffective handover strategy

Not having thought sufficiently through how to demobilize existing contractor and manage transition of knowledge and information.

Process, process, process

Sole focus on the formal requirements of the relationship. Underestimating the need for investing in people.

Invisible leaders

“Post tender vacuum”. Returning to business as usual. Disjointed leaders leading to disillusioned teams.

Communication and climate

Lack of respect. Exclusive knowledge. Infrequent and/or delayed communication. Inaccurate information. Blaming.

Key enablers of successful collaboration

1. Make a plan

Set aside time. Develop realistic timelines. Include both demobilization and mobilization. Formulate clear readiness criteria.

2. Get clear on the roles

Clearly define roles and responsibilities of the various players involved. Test and confirm understanding in a series of effective and well planned workshops. Explore understanding.

3. Training makes perfect

Use scenario-based training as a tool to building trust and collaboration. Facilitate relationship building. Arrange social events and let people get to know each other. Bridge disconnected people that need to collaborate through structured interventions (teaming, buddy system, mentoring).

4. Engage as a leader

Be present. Involve and take part. Suspend un-necessary boundaries. Ask questions. Resolve conflicts. Make decisions. Actively foster an inclusive environment where everyone can play a role and be their best.

5. Build the organization

Reframe boundaries. Craft a compelling mission. Agree on values and set hairy goals together for the project. Become a storyteller. Narrate common purpose and collective action.

Figure 4. Key challenges and key enablers for successful collaboration in stage 3

Stage 4: Execution

Sustain and improve

You are set up for success: value chain mobilized, right contract framework, the best contractor / customer, and motivated, capable and committed teams. What could ever go wrong?

Deloitte analysis shows that often neither suppliers nor customers achieve the promised value from the committed contracts. Implications are painful: eroding margins for suppliers and delays in deliveries or cost overruns for customers.

There are many reasons behind such development, one important being lack of effective collaboration as outlined in Figure 5.

Leaders we interviewed noted that, despite best intentions, collaboration often deteriorates throughout the lifetime of a contract.

The result being that the capability of leadership and teams is spent fully on managing conflicts rather than focusing on value creation and improvements. The shift from leadership “within” to leadership “between” represents huge challenges for organizations. HR policies, performance management systems, and selection and development of leaders are out of touch with a landscape where wide-ranging experiences, diverse expertise, and varied identities intersect in complex value chains.

Companies need to take action to support leaders and teams to cut through boundaries, bring multiple groups together, and move in new directions. This would allow them to open up new opportunities and build innovative business models (Figure 5).

“The problem in the industry today is that suppliers are focusing on how much they can earn while operators focus on how much they can save. Both suppliers and customers want to collaborate, but everyone has their own agenda. In times when we should focus on how we can work together to achieve common goals, selfishness is the biggest challenge” (Supplier)

Stage 4: Execution

Sustain and improve



Key challenges

Lack of strategy for sustained performance

Missing a clear strategy and plan for how to sustain and improve relationships, collaboration and performance.

Lack of ownership

Insufficient understanding and ownership of contract and processes. Changes in personnel combined with ineffective onboarding.

Disjointed customer

Lack of alignment and many voices. Frustration and rework.

Conflicts and distrust

Inability to effectively prevent and handle conflicts (personal and contractual).

Key enablers of successful collaboration

1. Demonstrate commitment

Make collaboration a corporate priority. Drive change from the top and lead by example. Make culture and engagement issues a leadership agenda. Embrace mistakes. Actively support teams. Establish effective contract governance mechanisms (e.g. committee meetings). Focus on learning and evaluation and share knowledge across the value chain.

2. Excel in performance leadership

Move to team-centric goal-setting. Build a feedback culture. Be clear on decisions, information needs and activities required to conduct the complete contracting process. Turn it into a tangible strategic plan.

3. Reskilling HR

HR needs to act agile, business-integrated and more data-driven. Put an end to “rank and yank” measurements and “once and done” feedback processes. Build new training concepts. Identify and develop boundary spanning leaders. Train people in collaboration skills.

4. Regular reviews of contract and quality of collaboration

Conduct regular reviews, open, two-way, focusing on successes and learnings.

Figure 5. Key challenges and key enablers for successful collaboration in stage 4

20 solutions for improved collaboration

STRATEGY:

1. Articulate the vision for collaboration

Establish bigger goals, ground rules of interaction and develop a shared picture of a desired future collaboration with your customers and suppliers.

2. Set the strategy for collaboration

Be clear on decisions, information and activities required to conduct the contracting process, turn it into a tangible strategic plan.

3. Be clear on your value drivers

Articulate and openly share your drivers, needs and expectations. Avoid being too specific on solutions.

4. Establish the arenas

Invest in exploring potential partners. Use existing tools where possible (e.g. findcontracts.no). Conduct meetings, town-halls and workshops.

5. Engage the right people

Make sure end-users meet suppliers to ensure joint understanding of needs and requirements. Exhibit an open mind to alternatives, divergent views.

6. Lead the way

Be visible as a leader. Demonstrate courage. Define the information, roles and resources relevant to lay the foundation for good decisions. Empower the organization. Hold people accountable.

SOURCING:

7. Drive accountability

Define clear roles. Engage and hold the line organization (end users) accountable for ITT and evaluation (“no escape clauses”).

8. Balance evaluation criteria

Include and weigh proactivity, innovation and collaboration.

9. Align and simplify incentives

Few but clear mechanisms. Secure joint understanding.

10. Go deep

Invest in conducting several in depth interviews by “the line of the line”. Get to know the people. Secure a joint understanding of requirements and expectations. Drive openness.

11. Test robustness

Use scenario-based approach. Explore sensitivities. Deepen understanding.

START-UP:

12. Make a plan

Set aside time. Develop realistic timelines. Include both demobilization and mobilization. Formulate clear readiness criteria.

13. Get clear on the roles

Clearly define roles and responsibilities of the various players involved. Test and confirm understanding in a series of effective and well planned workshops.

14. Training makes perfect

Use scenario-based training as a tool to build trust and collaboration. Facilitate relationship building and let people get to know each other. Bridge disconnected people that need to collaborate through structured interventions (teaming, buddy system, mentoring).

15. Engage as a leader

Be present. Involve and take part. Suspend unnecessary boundaries. Ask questions. Resolve conflicts. Make decisions. Actively foster an inclusive environment where everyone can play a role and be their best.

16. Build the organization

Reframe boundaries. Craft a compelling mission. Agree on values and set hairy goals together for the project. Narrate common purpose and collective action.

EXECUTION:

17. Demonstrate commitment

Make collaboration a corporate priority. Drive change from the top and lead by example. Embrace mistakes. Actively support teams.

18. Excel in performance leadership

Move to team-centric goal-setting, feedback and compensations. Build a feedback culture. Be clear on decisions, information need and activities required to conduct the complete contracting process. Turn it into a tangible strategic plan.

19. Reskilling HR

Put an end to “rank and yank” measurements and “once and done” feedback processes. Build new training concepts. Identify and develop boundary spanning leaders. Train people in collaboration skills.

20. Contract reviews

Conduct regular reviews, open, two-way, focusing on successes and learnings. Establish effective contract governance mechanisms (e.g. committee meetings).

Concluding remarks

Key ingredients to improved performance

Front-end loading. The oil and gas industry feels the urgency to unlock value and a need to drive sustainable, structural cost reductions across the value chain. An efficient oil and gas value chain starts with efficient collaboration and setting a vision in the first phase. This is the phase with real opportunities for exploring new models and solutions, and where the most significant impact can be made.

Leadership. Effective leadership that spans across organizational silos and strengthens trust and personal ties is crucial for collaboration. For this to happen, leadership cultures on the NCS has to change: leaders need effective communication and interpersonal skills, both of which can be learned. There is also a need for improved internal structures (e.g. cross-firm conflict resolution process) and arenas (meeting points, forums) for customers and suppliers to collaborate.

With today's focus on technology, procedures and processes rather than "softer" aspects of collaboration, some companies might struggle to put these skills high up on their agenda or to adopt a more proactive approach to collaboration. Our recommendation is however to put boundary spanning leadership on your company's agenda and incorporate it within your strategy. It will directly translate in more innovation, increased efficiency and improved performance.

“Lack of trust doubles the costs of doing business”

(Prof. John Whitney, Columbia Business School)

Contact information

Please do not hesitate to call us to share your reflections on the findings



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