

Managing Change in Difficult Times

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The recent economic crisis provided a sense of urgency that helped organizations everywhere to successfully implement changes that would have been difficult otherwise. Companies spanning all global geographies and across all market segments, including energy, are being forced to examine the fault lines in their business under the pressure of sharply reduced demand, the failure of suppliers and partners, limited access to finance, and other consequences of the downturn. Many firms find this an inauspicious environment in which to attempt fundamental change in processes, behaviors, or structures, for fear of subjecting the organization to even greater strain. Others, however, see the crisis as a unique opportunity to achieve just that.

To assess the degree of change that firms have been experiencing since the onset of the economic crisis, and how they are handling its internal consequences, the Economist Intelligence Unit surveyed more than 500 European and US executives in July and August 2009 as part of Celerant Consulting's second annual global survey on change.

More than half (59%) of global business executives who responded to the survey say that the current economic crisis has revealed shortcomings in their organization that they are attempting to redress and two-thirds (66%) of participants state that their organization is using the crisis as an opportunity to drive change that would have been difficult to achieve in better times.

Maintaining Change Programs

During times of economic uncertainty it is common for companies to attempt to simply weather the storm and not invest in organizational changes that will ultimately result in more efficient and effective business practices. However, the survey reveals that only 6% of firms have suspended change programs—structured approaches to implementing

and managing change within a company—as a result of the financial crisis and the majority (60%) of firms are continuing with and even accelerating existing change programs while also launching new ones.

There is a danger, however, that firms are using the crisis to launch change initiatives too rapidly, with too heavy a focus on short-term objectives which yield only one-time saving rather than creating sustainable cost improvements that will continue over time. More than half of respondents in the survey confirmed this.

Across the energy industry, executives are responding to the crisis in different ways. Some executives feel that they have “missed the boat” on the opportunity to drive through change, especially since oil prices have now climbed back to around USD 70–80/bbl and wish they had started last summer. Independents in general realize that change is required to progress beyond where they are today. Their current operational culture is often a result of growth through mergers and acquisition (M&A) activities that have brought many different ways of doing the same thing in the company. To gain efficiencies they now need to first decide what the “company way” of doing things is, then get that way implemented across the organization. Culture change or very deep change will be required in many cases as current practices are too well entrenched.

More proactive leaders are using the current crisis as a call to action in various ways. For those companies that position themselves to excel in an eventual economic recovery, the focus is expectedly different. While cost cutting is also a key element of their strategy, they do so by addressing a broad range of integrated processes to establish and improve their ability to serve customers at lower costs. Some reinvest saved expenses in favor of maintaining or gaining share. Others devote resources to long-lasting results-oriented projects and initiatives that target behavior change for sustainable results.

One aspect of this is the increasing M&A activity seen in the industry, such as the Baker Hughes/BJ Services and Denbury Resource/Encore acquisition deals. As M&As involve corporate culture changes, significant emphasis on change management is required for successful mergers. Most mergers that fail to deliver the expected returns are due to inadequate change management. Others are looking at streamlining and standardizing existing operations using various lean principles for sustained long-term efficiency improvements. Also, not surprisingly, many executives have responded to the downturn with headcount reductions and stricter cost-management initiatives.

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A striking finding specific to the energy industry for 2009 was the fact that only 7% of energy respondents said that “No or few change initiatives have been successful in their organization over the past 5 years.” Another way of putting this is that 93% think they have seen varying degrees of success with their change-management initiatives in the past 5 years. This seems optimistic as few managers who hire consultants would want to say that the project was a failure.

Most in the industry would say that overall, energy companies are not very good at change. They tend to focus on the short term and are tied to the ups and down of the market. Another interesting observation highlighted in the data specific to executives in the energy industry is the dynamic of long-term vs. short-term change and how that affects careers in the sector.

The industry has had a problem driving long-term change in their organizations, instead being more apt to fix things on a short-term basis or in crisis mode. It is poor at defining why the company is changing and putting hard numbers on the outcomes executives expect from the initiative. As such, the general return on investment from change initiatives in the energy industry is low compared to other industries. Long-term change is affected by short-term thinking as the survey shows. That is a result of how the industry moves managers and executives in their respective organizations (both operators and service companies). It is quite customary to move people not only positionwise, but also geographically every two to three years. Careers in the energy sector are made through frequent moves that encourage short-term activities and results. As such, long-term change that requires sustained effort does not easily happen in the industry.

Experiencing difficulty sustaining the medium- to long-term change programs that are often required to ensure a cultural change is particularly the case when senior management is moved, as the survey shows that one of the critical success factors is senior management’s commitment to the change program. We often also see that organizations tend to rely on external resources for their change-management program and never internalize and take ownership of the process which often leads to failure.

However, leading organizations have been able to see the advantages of both short- and long-term change. Those companies with a cost-reduction focus are effectively bracing for impact. They expect that the inevitable economic back draft requires lower costs and they address short-term initiatives to withstand tightened credit markets and lower demand. Their programs largely address selected process deficiencies and they make hard choices on labor, R&D, marketing, and other major expense programs. Minimal strategic investments are made to reposition or expand presence.

How Can Success Be Achieved?

The hardest part, according to the survey respondents, is “winning hearts and minds” (33%). The survey respondents single this out as the most difficult element of any change program. It is one thing to get people to state their commitment to a change initiative, but if they have not truly bought into the change, the program will ultimately fail. Equally as tough a challenge for change programs, according to respondents, is keeping to budget and timetable (33%)—as a result of the worsening economic conditions since the 2008 survey,

this concern has escalated in importance, from ninth place in 2008 to second in 2009.

Additionally, another significant reason change programs do not succeed is the lack of clearly defined or achievable milestones and objectives (reported by 29% of respondents). The second most commonly cited reason for failure is a lack of commitment from senior managers (19%), which is something that we hear and see repeatedly. Top management initiates the change, assigns the tasks, and then sits back and assumes things will happen with predictable results. Continuous involvement and reinforcement by top management are two key attributes to a successful change-management program.

More than two-thirds (71%) of respondents say that their companies are dealing with the changes resulting from the financial and economic crisis “reasonably well,” while 8% believe that their firms are dealing with the impact of the crisis “extremely well.”

Smart executives and companies realize this is a time of opportunity—a time to take advantage of passive competitors and down markets by changing the rules through aggressive and vigorous operational change and innovation. Those that can effectively implement a combination of long- and short-term change programs as well as engage employees’ hearts and minds, ensure commitment from senior management, and establish clearly defined objectives will be well positioned for growth as we emerge from this current economic environment.

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To view the full survey, please visit www.celerantconsulting.com.



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