

Project Execution in Changing Times

Focus on the Essentials



Endeavor Management

2700 Post Oak Blvd.
Suite 1400
Houston, Texas 77056

P + 713.877.8130
F + 713.877.1823
www.endeavormgmt.com

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E&P Companies Are Re-negotiating Oil Service Contracts... And Winning Oil Majors Seek To Claw Back Costs from Service Firms

The Case

Many approaches are being taken to reduce the cost of capital developments; some are being put on an accelerated path to drive short term fixes such as price concessions, headcount reduction, insourcing of expertise, drawn out phasing of work, scope reduction and deferral. Systemic issues, that require investment of time and resources require equal attention and can pay dividends now and become a way toward longer term, sustained business improvement.

One of the oil and gas industry's systemic issues that requires attention is effective delivery of capital projects. As various well regarded research has shown, the current performance of megaprojects (>\$1billion) has plenty of room for improvement and has not significantly changed over the last decade.

E&Y “Spotlight on Oil and Gas Megaprojects” report of August 2014 states: For megaprojects, 64% are facing cost overruns and 73% are reporting schedule delays.

So, let's look into the issues and solutions related to effectively delivering large capital projects that are important in any business environment.

As organizations look at the systemic issues of project execution effectiveness, several common areas receive attention. The supply chain, capability and experience of teams, and deployment of technology. The fundamental tenants of sound project execution sometimes get overlooked as the true impact on project performance is more difficult to quantify. However, there are several essential elements that permeate the project execution lifecycle and contribute to improved (or if neglected, deterioration of) project performance. Some may call these the red threads, or should we say gold threads, that form the fabric of project delivery.

These essential elements are not new or revolutionary, but many times are not properly established nor given constant genuine attention. With focus on the essential, here is a list of these project elements with a few points of emphasis.

The Essential Project Delivery Elements

Project Scoping

Emphasize clarity and completeness. Most organizations have a formal stage gate process that looks at the requirements and ROI in increasing level of detail prior to making full funding commitments. However, it is critical to properly document the justifications and inputs for key decisions taken during these gate reviews to benefit the future phases of the project when more detail is developed. Many times analysis of options is recycled due to lack of awareness of similar previous decisions. As the number of teams on the project increase, clear documentation and communication of the scope basis along with the current detail of the scope is essential. As the scope is “the what,” the intended end product; great clarity and over communication of the scope must be practiced (see Alignment below).

Schedule Risk

Scrutinize the impact of dependent activities that may be “force fit” into a parallel process (i.e. "fast-tracking"). To significantly impact the assurance of delivering the project to intended goals, the sequencing of the development, engineering, buyout, and construction phases must consider the business needs and consider the attendant risks. The impacts of cash flow limitations of project investors due to the short-term current business climate need to be included in the project execution schedule. A fair and transparent analysis of schedule risks by the project stakeholders is critical.

Contracting Strategy

Develop a “digestible” contracting scope that fits within the contractors’ current capabilities (organizational and financial). Mutually developed risk allocation principles, as a result of open discussions between owner and contractors, will reveal issues early. Given the current business position of service organizations, consider contracting redundancy or readily available contingency plans for critical scope items.

Interfaces

Have a clear plan with defined roles for addressing interfaces between stakeholders (e.g. contractor/contractor, owner/contractor, and owner/government). Increasing complexity of projects creates an exponential increase in the interactions that occur between all stakeholders and project team members. The typical project organization needs a focused function/role and process, to understand, monitor, expedite, and communicate these interfaces.¹

Alignment

Get on the same page, focus together on the target(s). Project goals as established by each of the stakeholders (government, public, owner, contractors, and buyers of the final product) can be at the best, divergent, and at the least not understood. These goals represent the underlying business reasons for the project – the What, Why, When, How much, and Return. Establish forums for continual clarification and confirmation of each stakeholder's goals to assure complete current understanding and hence buy-in. For instances where there are partner agreements, assure there is understanding of the true business impact to each partner, derived from the various aspects of the project.

Team Culture

Support project leaders and their teams to drive commitment toward common goals and a collaborative culture. Projects are essentially individual businesses with a finite deliverable. In many cases, the project team members work together for 3-5 years. A team culture, established by the project leadership, is essential to positive project performance. Drive an early, continual process of positive reinforcement and stakeholder engagement.

Management Engagement

Assure a positive and supportive approach from senior stakeholder management. The power of the team culture, degree of alignment among stakeholders, and performance requires reinforcement from the senior leaders outside of the project team. As stakeholders can be geographical and culturally diverse, be aware of the 'unintended impact' that redundant stakeholder roles and conflicting goals will have on the effectiveness of the project team.

Risk Mitigation Mindset

Continually anticipate risks, then aggressively plan for and implement mitigation measures. Risk management is a process well used by project development and delivery organizations. The value it brings to effective project execution is diluted as it has become a routine “check the box” process rather than an essential one. To improve the value, risks should be identified by a representative cross-section of the stakeholders, fairly ranked according to impact on the project goals, then, most importantly, develop risk mitigation plans that are owned by individuals within the stakeholder organizations. These top risks and mitigation plans become key areas of focus until they are complete or have diminished in potential impact relative to other risks. The basket of commercial risks are impacted by the business climate (i.e. investor/partner/supplier financial stability and solvency, volatile revenue forecasts, and geopolitical uncertainties) thus supporting the need for a robust risk mitigation mindset.

Opportunity Harvesting Mindset

Continually cultivate opportunities, then plan for and implement measures to harvest them. The focus on seeking and taking continual action to bring to fruition opportunities that improve the likelihood of beating stakeholder goals should be as keen as that given to the risk management process.

Variable market conditions make ROI hurdles more difficult to attain and thus require work processes and approaches that are both more effectively applied and/or retooled.

The Path Forward

While there may be agreement that emphasis is needed on some or all of these elements, what actions are needed to deliver results? First, senior management of the impacted organizations (esp. owners, contractors and service delivery) must recognize the need for a focus on solutions. Secondly, a diversity of perspective is needed to deliver solutions for each of the essential project execution elements. Diversity can be achieved from those with an open viewpoint, having seasoned industry experience, free thinkers, and those possibly unencumbered by internal or stakeholder processes. Many in the oil and gas industry have successfully navigated through these issues and lived through similar business cycles. Engage their knowledge in deliberate and collaborative ways.

Focusing on the essential few elements, brings perspective to the challenges of effectively delivering capital projects.

¹ For details refer to Construction Industry Institute publication “Interface Management Implementation Guide” Implementation Resource 302-2.

About Endeavor

Endeavor Management, is an international management consulting firm that collaboratively works with their clients to achieve greater value from their transformational business initiatives. Endeavor serves as a catalyst by providing pragmatic methodologies and industry expertise in Transformational Strategies, Operational Excellence, Organizational Effectiveness, and Transformational Leadership.

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- Operations
- Technology Deployment
- Strategic Human Capital
- Corporate Finance

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