

Development and implementation of a common strategy for operating companies and OSROs

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ABSTRACT

In times where oil companies are looking for potentials for cutting their costs, oil spill response organizations become subject to budgets restrictions.

Norwegian Clean Seas Association For Operating Companies, NOFO, and her members, have developed and approved a common strategy for the next 5 years. The strategy implements the Good Practice Guidance (GPG) made by IOGP/IPIECA post Macondo JIP working groups.

The strategy was implemented through a process, breaking the main areas into action items, involving the entire NOFO OSRO into this work. By doing so, NOFO has succeeded in leading on in identifying activities, when to do what and the costs related to activities. As such, severe budget restraints have not been hitting the organization.

The process and involvement of this OSRO does have many elements easily applicable to other OSROs.

This presentation will describe how the strategy was made, the process from overall goals to aims and objectives to implementation and follow-up by the companies and NOFO, whereby the GPG have been put into effect.

Promoting the common strategy, including the GPG from IOGP/IPIECA has proven a valuable part of the industry and OSRO outreach and communication.

INTRODUCTION

In times when the price of crude oil is low, the gas and petroleum industry will reduce their expenses. Such reduction will naturally have influence on other activities related to or in support of the industry.

One activity supporting the oil industry, is the oil spill response regimes. The different oil spill response organizations (OSROs) are heavily dependent on their members providing substantial funding for the establishment, administration and training of any OSRO. Budget constraints may as well hit these organizations, hence putting severe challenges to the conduct of oil spill response.

Regulators i.e. governmental agencies, do in many cases provide laws and regulations by which the companies must apply in order to conduct oil and gas production or exploration. Many nations include in their regulations the necessity to demonstrate an ability to conduct oil spill response in the unlikely event of an oil spill. As such, neglecting oil spill response for an OSRO seems unlikely.

However, even if a complete closedown of any OSRO seems unlikely, the companies – the customers or owners – may request more efficiency, that is do the job with less money. This is the challenge to OSROs.

How can OSROs adapt to new demands from the industry? One solution is to develop a new strategy. Such a strategy must be a common, agreed strategy giving the way ahead for both OSRO and their owners. By doing so, the industry – and OSROs – will face the authorities with one voice, one direction, common goals, and the cost-efficiency and understanding of response capability will be commonly understood.

HOW TO DEVELOP A COMMON STRATEGY

When developing a strategy, it is necessary to have a common understanding what strategy means. Far too often people tend to mix strategy with detailed activities and measurements.

To understand the concept of strategy, we must be aware that strategy may have different meanings related to its context. One commonly used definition is to “identify goals to be achieved”, or rather “Strategy (from Greek στρατηγία *stratēgia*, "art of troop leader; office of general, command, generalship") is a high level plan to achieve one or more goals under conditions of uncertainty.” (Wikipedia). As strategy, in our context, is related to conditions of uncertainty (ex. budget constraints), I will use this definition throughout this paper.

Strategy was described by professor Richard P. Rumelt in 2011 (Rumelt 2011. “*Good strategy/bad strategy*”) as a type of problem solving. He wrote that “*good strategy has an underlying structure called a kernel. The kernel has three parts:*

- 1) *A diagnosis that defines or explains the nature of the challenge;*
- 2) *A guiding policy for dealing with the challenge; and*
- 3) *Coherent actions designed to carry out the guiding policy”.*

Based on these principle, it is important to define the challenge, how to deal with the challenge and what actions need to be taken to achieve the goals.

Strategy typically involves two major processes: *formulation* and *implementation*.

Formulation involves analyzing the environment or situation, making a diagnosis, and developing guiding policies. It includes such activities as strategic planning and strategic thinking.

Implementation refers to the action plans taken to achieve the goals established by the guiding policy.

The scope of strategy, can be said “to shift from that of pursuing a victory over others to somehow making it together with customers and suppliers, distributors and development partners” (Ford et al. 1998:107).

Based on this, we understand that an important part in the development of a common strategy, is to create the same understanding, the same picture, of what the situation is and where do we go. Such an understanding is imperative to all member companies and the OSROs. Implementation, however, should be left to the OSRO itself under guidance of the Board of Directors as deemed necessary.

Who should be involved in the work of establishing a common understanding and identifying the guiding policies? One way to go, that has been proven to work in Norway, is to involve relevant stakeholders in this process. Let me therefore look to Norway as an example.

The stakeholders identified in the strategy process in Norway were

- Member companies
- Regulators (EPA)
- Governmental OSRO (Coastal Administration)
- NGO’s (such as WWF)
- Consulting companies (such as DNV GL)
- The Norwegian equivalent to OGP (Norwegian Oil and Gas Association)
- IOGP/IPIECA (JIP “Good Practice Guidance” representative)
- Other OSROs (such as MSRC with their Macondo experience)
- Own OSRO employees.

By getting inputs from these stakeholders, it was possible to make a picture of the expectations to the OSRO – to NOFO (Norwegian Clean Seas Association for Operating Companies) – and through this making the foundation for a common understanding of the coming strategy.

Of course, making a new strategy was a task given by the Board of Directors, hence the BOD took an active part in the process of developing the document.

In practical terms, the actual work was carried out by a small working group (WG) with three representatives from the member companies (large, medium and smaller companies), one representative from the BOD and two representatives from the OSRO (NOFO).

Throughout the process, it was important to understand that oil and gas industry and oil spill response represents a dynamic environment. As such, the strategy was given a limited period of time, in this case five years.

One more aspect is to be said about strategy: It should be

- Comprehensive
- Giving opportunities, not constraints
- Easy to remember
- Identifying, in broad terms, all OSRO activities.

Using these guidelines while developing a strategy, makes it easier for all stakeholders to understand it and feeling they do have a certain “ownership” to the strategy.

Ownership is important when talking about a “common strategy”, and it surely helps when discussing budgets.



As an example, the NOFO Strategic Plan is valid for 2016 – 2020, and has three main objectives:

- Efficient and robust oil spill response
- Cooperation
- Development

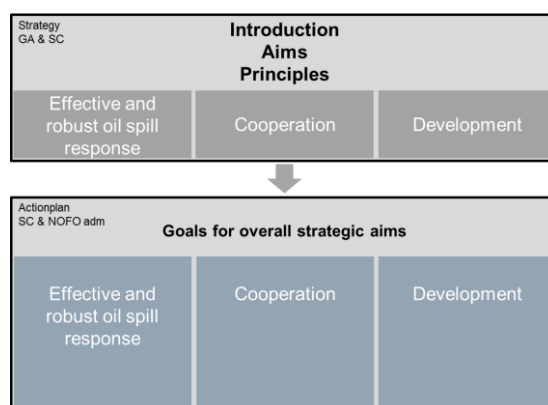
Three main objectives – easy to remember, but covers a lot.

INDUSTRY UNDERSTANDING

As already mentioned, it is important to have a common understanding of what the strategy gives. Policy guidance is a matter of member companies' decision, hence a necessity to commonly understand what they are to approve. (A new strategy should, of course, be subject to General Assembly (equivalent) approval).

At the same time, a common strategy is – as the name itself indicates – a common strategy. It is not a strategy for the OSRO. It is not a strategy for a single company. It is a strategy for ALL member companies AND the OSRO. The strategy may therefore as well put forward tasks and expectations to the OSRO, but also to the member companies.

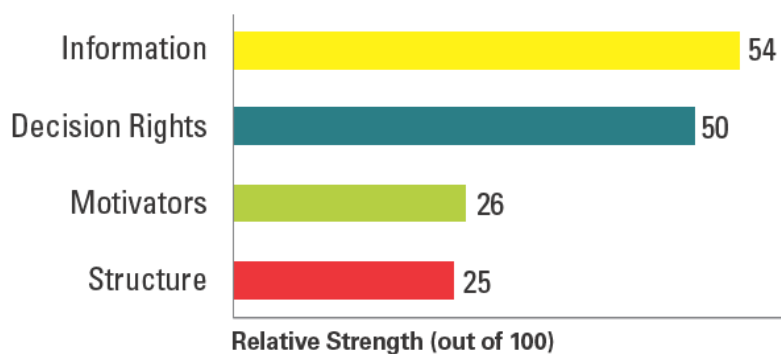
All stakeholders, and in particular member companies, have to be an integrated part of the process. At the same time, it is important to make sure the different stakeholders know their role in the process.



Aims and guiding principles vested in the General Assembly, strategic aims in the BOD and OSRO.

Of course, it may often be a challenge to make the different member companies aware of such a common strategy. Even if the representatives of the GA understand and agrees in the guiding principles and overall aim, the rest of the companies, including the management level, may not have the same understanding of the work proceeded or the outcome.

Outreach and communication is a key issue in this respect. The strategy must be communicated and understood. A solid foundation throughout the companies – from manager to executioner – is imperative to make it work. Therefore, it is important, as stated, to bring the companies, or company designated, into the process of developing a strategy.



Studies as shown in the figure, show that clarifying decision rights and making sure information flows where it needs to go, hence communication is by far what matters most to strategy execution (Harvard Business Review June 2008:62). Strategy execution is a company responsibility. The implementation, or action plans is vested in the OSRO.

The stakeholders, as well as their associations (like IOGP), should therefore be aware of their common strategy and advocate this as often as possible when confronted from the public or authorities as which way the oil spill response is going.

OSRO COMMON UNDERSTANDING

Of course, not only the stakeholders must be aware of the strategy, the understanding and the expectation put into the document. The OSRO as well need to be aware of the strategy.

It is actually more correct to state that the OSRO itself must have an even deeper understanding of the expectations as this is the organization that will implement the strategy – turn it into actions, i.e. operationalizing the strategy.

Studies show what may be fundamental traits of organizational effectiveness.

RANK	ORGANIZATIONAL TRAIT	STRENGTH INDEX (OUT OF 100)
1	Everyone has a good idea of the decisions and actions for which he or she is responsible.	81
2	Important information about the competitive environment gets to headquarters quickly.	68
3	Once made, decisions are rarely second-guessed.	58
4	Information flows freely across organizational boundaries.	58
5	Field and line employees usually have the information they need to understand the bottom-line impact of their day-to-day choices.	55
6	Line managers have access to the metrics they need to measure the key drivers of their business.	48
7	Managers up the line get involved in operating decisions.	32
8	Conflicting messages are rarely sent to the market.	32
9	The individual performance-appraisal process differentiates among high, adequate, and low performers.	32
10	The ability to deliver on performance commitments strongly influences career advancement and compensation.	32
11	It is more accurate to describe the culture of this organization as "persuade and cajole" than "command and control."	29
12	The primary role of corporate staff here is to support the business units rather than to audit them.	29
13	Promotions can be lateral moves (from one position to another on the same level in the hierarchy).	29
14	Fast-track employees here can expect promotions more frequently than every three years.	23
15	On average, middle managers here have five or more direct reports.	19
16	If the firm has a bad year, but a particular division has a good year, the division head would still get a bonus.	13
17	Besides pay, many other things motivate individuals to do a good job.	10

BUILDING BLOCKS: Decision Rights (Blue), Information (Yellow), Motivators (Green), Structure (Red)

As shown (Harvard Business Review June 2008:63), the individual's idea of role and responsibility, decisions and actions has a high ranking.

When making the OSRO understand the strategy, it is important to remember three key elements

- Management
- Information
- Involvement

These three elements are essential to emphasise that the management must understand the strategy, believe in it and follow up from their part.

The information throughout the entire organization is also essential as the OSRO must understand what they are going to do in the future. What are the expectations?

And finally, the organization must be involved in the implementation of the strategy.

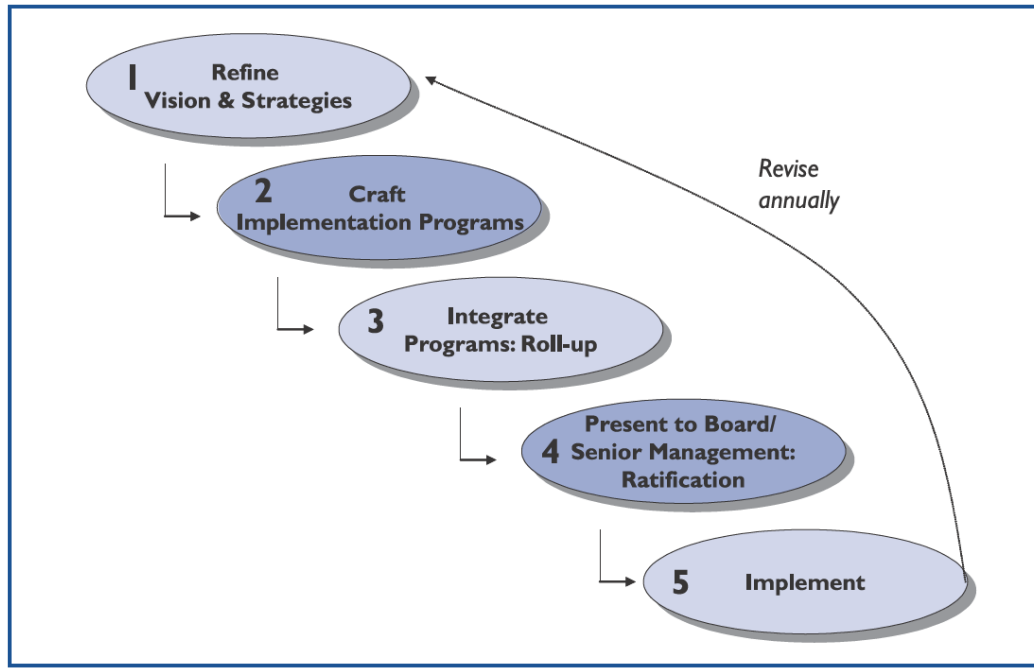
It is quite clear that the management have an important role in putting the strategic plan to work. Effective practices confirmed through studies (Rob Mieso 2010) shows that

- Include implementation in the planning process
- Follow up and follow through
- Appoint a point person for coordination
- Align funding to strategy
- Effective communication
- Engage people at all levels
- Establish realistic timelines

are factors that have proven effective for the implementation.

HOW TO MAKE A STRATEGY OPERATIONAL – IMPLEMENTATION PHASE

After making sure stakeholders and OSRO have a common understanding of the strategy and guiding principles, the next is the implementation phase, or rather making the strategy operational.



The principle of an implementation process is shown in this figure (Journal of Business Strategy Vol 26 2005: 13).

I will use the implementation of NOFO strategy (NOFO Strategic Plan 2016 – 2020) as an example how theory is brought into practise.

The structure of NOFO strategy is as follows:



The strategy is turned into an action plan. The action plan shows the structure of the strategy where we can find

- Three main goals
- 13 aims
- 35 objectives
- 116 activities

This structure breaks the strategy down to single action points.

Looking more into the structure (for this purpose limited to goals and aims) the hierarchy gives the following diversification

- Effective and robust oil spill response
 - Risk Assessment
 - Robustness
 - Cost-effectiveness
 - Combat effectiveness
 - Competent organisation
- Cooperation
 - NOFO's member companies
 - Public sector (i e authorities and municipalities)
 - Private contractors
 - International cooperation
 - Strategic Communication
- Development
 - Technology/Research and Development
 - Organisational development

- Further development of regulations and guidance for contingency planning and activities on NCS

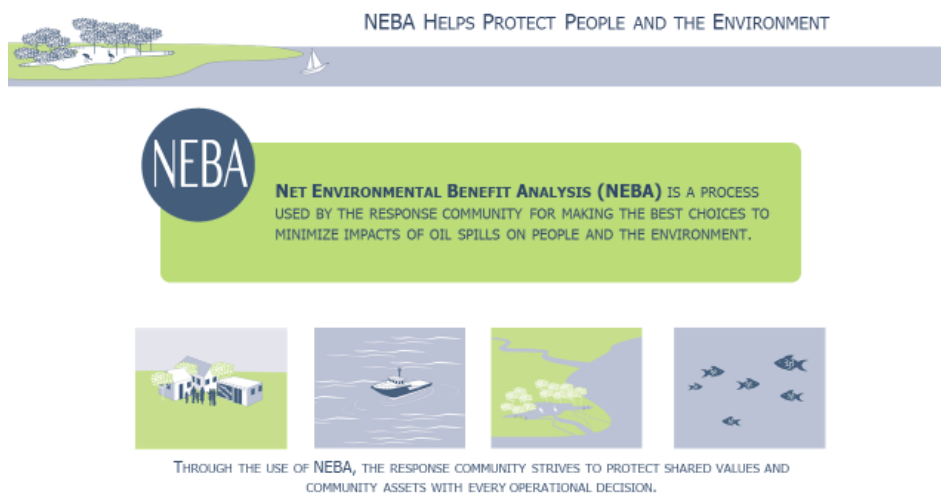
Each of these 13 aims have been designated a project manager within the NOFO organization. By doing so, the organization gets an ownership to the strategy. Furthermore, all activities have to be coordinated internally in the organization and budget control and efficiency being thoroughly monitored. The aims are described as a project with

- Purpose
- Risk analyses
- End state
- Timeline
- Stakeholders and project organization
- Budget

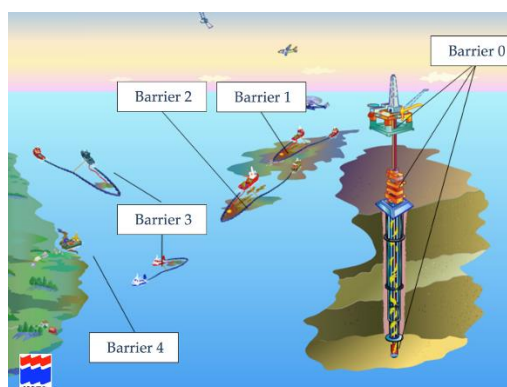
This structure makes an efficient tool for the project manager, i.e. the organization designee to monitor, control and adjust the practical implementation of the strategy.

When putting the strategy into action, the OSRO has the possibility to implement best practices into effect. In this respect, it is worth to mention the post-Macondo work completed by the IOGP/IPIECA OSR JIP, whereby several Good Practice Guidance (GPG) have been developed. Many oil and gas companies have signed up to these GPGs, hence OSROs, having these companies as customers or members, should be aware of – and implement – such guidance into their strategic plan. By doing so, the implementation and action plan should be easily recognizable to the member companies, hence making the budgeting process a lot easier. No money, no activities and in times of economic constrains the need for funding must be understood in both companies and OSROs.

Some examples on implementing GPG, as implemented in the NOFO Strategic Plan. The goal of Effective and robust oil spill response has one risk assessment as one of its aims. In this respect, the implementation and focus on NEBA (SIMA) is adequate.



Furthermore, describing how NEBA (SIMA) may be an integrated process of the conceptual thinking, using barriers, is yet another way to make the strategy operational.



Another example how GPGs can be integrated in the strategic plan, is through the goal of Cooperation. As part of this goal, the principle of tiered preparedness can be integrated and emphasize on cost effectiveness shown in practice.



Stakeholders may easily understand that this is a system making the most value for money, not making unnecessary spending and still maintaining a robust response capability.

The project managers will have to report to the management group, who in turn reports to the BOD and further to the GA. In NOFO the reporting structure is



As shown, there is a quarterly report to the management group, semi-annual report to the BOD and an annual report to the GA.

Through such a structure, the report on how the implementation is progressing will enable the management, BOD and – finally – GA to make an annual review of the strategy. Does the implementation proceed as planned? Has there been any significant changes in the market, regulations, company policies etc that makes it necessary to correct the strategy?

CONCLUSION

In many countries, maintaining an oil spill response capability is considered a “license to operate” by the authorities. This means that the existence of OSROs and their capabilities is an important part of the oil and gas industry.

During times with low income (i.e. low prices on oil and gas), the companies tend to look into their budgets finding the possibility to cut expenses. Oil spill response is one of the areas where companies are looking for the potential of cutting expenses.

To maintain an efficient oil spill response capability and at the same time considering budget cuts, it is important that the industry, together with the OSROs, identify and implement a common strategy, a common action plan, in order to demonstrating their capability hence making the authorities comfortable that the companies still can obtain their “license to operate”. Such a strategy must be developed in close cooperation between the industry and the OSROs making a common foundation to be transmitted to the public and the authorities.

Making a plan, a strategy, has in itself no value. It has to be understood and implemented through actions. Internal foundation within the industry and the OSROs, at all levels, is essential. Given a common strategy, followed by a realistic action plan may both prove the necessary response capability is present and justifying needed funding.

Information, outreach and communication, common strategy and common understanding applicable to both companies and OSROs may be the way to run oil spill response in a most cost-effective way, especially in times of downsizing.

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