

GAINING THE OPERATIONAL ADVANTAGE

RISKS ARE REWRITING THE RULES FOR COMPETITION

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Oil and gas firms are leaders when it comes to managing process safety risks. Now, they need to perfect the art of reducing variability in their operational performance. The front line for competition in the energy industry is shifting to determining the appropriate level at which operational risks should be mitigated, as energy companies embark on more complex new projects at one end of the spectrum and cope with aging assets on the other.

Unfortunately, many oil and gas firms are ill-equipped for this harsher operating environment. An unintended consequence of the energy industry's increased focus on process safety over the past decade has been for managers to equate operational risks solely with safety. Process safety has been separated from operational performance, with the former often managed by safety professionals and the latter by operational professionals.

It's time for a better approach. To be sure, process safety (which we define as the means of operating high hazard equipment without a major incident) is a natural part of operational excellence. But operational risks range from staffing to maintenance regimes to supply chains. In order to take advantage of the full breadth of opportunities that exist to improve their operational performance, companies need to address risks that may fall short of being catastrophic that could still have potentially significant impact.

Adopting this new tack is not easy. It requires examining explicitly the trade-offs involved in mitigating operational threats. Each risk needs to be analyzed and its impact on operations understood. The analysis should be viewed as



all-encompassing, rather than through a purely safety or operational lens. After developing a comprehensive view of the company’s tolerance for risks to its operations strategy, companies must then implement effective barriers to the threats considered unacceptable and create a corporate ecosystem capable of controlling them in a higher risk environment.

The goal is achievable. Already, companies in the vanguard of this paradigm shift, such as Exxon Mobil Corp. and Chevron Corp., identify and manage sources of volatility to the operational performance of certain platforms and refineries within their jurisdiction. We believe that more companies need to follow suit.

By setting operational priorities and changing the manner in which safety and operational leaders and managers interact with each other, companies will not just be able to improve their operational performance. Management teams will also be better able to reward shareholders, employees, customers, and communities.

Otherwise, a perfect storm of operational risks will likely only exacerbate the present volatility in their operational performance. Oil and gas firms need to begin to draw up a new game plan to get ahead of these risks – now.

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