

# Governing Energy

## A Year for Strong Bond Governance?

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This year begins the fifth calendar year for this blog—February 2, 2012 was the date of the first release. Over the last four years we have attempted to address contemporary business issues of interest. We expect to continue that approach moving forward.

Our overriding focus has been on organizational governance and risk mitigation issues. In 2014 book we first put forth the **Strong Bond Governance** business model—“the Culture of Safety started with an anchor at the Board of Directors level.”<sup>i</sup> In this construct the commitment to safety is sacrosanct and indeed **is** the culture of the organization.

Oil prices are expected to remain in the current trading range (perhaps even lower) for the foreseeable future. Economic actors in the sector including operators, service and engineering firms as well as manufacturers have had to adjust to the realities of this part of the business cycle. *Operational Excellence* is now the current watchword (Googling the term ‘Operational Excellence in Oil and Gas’ generates almost 1.2 million hits).

In their 2012 article, *Operational Excellence: The Key to Success for Oil and Gas*, the authors state, “Indeed, companies in the oil and gas industry are looking to increase their bottom line by boosting their operating efficiency and reducing fixed cost.”<sup>ii</sup> In 2010, McKinsey included *Contractor Management* and the concept of a “Safety Dividend” in their perspective on Operational Excellence.<sup>iii</sup>

2015 witnessed the demise or near demise of firms with governance models focused only on near term profits during the rising commodity price portion of the business cycle.<sup>iv</sup> This significant destruction of stakeholder value is repeated in every cycle. Other storied brands may soon disappear as well, i.e., Baker Hughes.

The 2010 McKinsey article discusses a number of things management should do to achieve Operational Excellence and yet a similar article this year would list many of the same issues to be addressed. These include:

- An inflated cost base
- Maturity of oil producing basins
- High maintenance costs (including downtime)
- Contractor management
- Safety
- Leadership

*Strong Bond Governance* is all about Leadership! Charting a course in these troubled waters is not just the job of the Chief Executive Helmsman, the Board of Directors sets the Strategic Course to be followed to add Sustained, Systemic Stakeholder Value.

If the organizational ship is on “the rocks” so to speak those plotting the course as well as those driving the ship are accountable to constituent parties. The strategic course always starts at the top.

## How Strong is your Organization’s Governance Bond?

### About the Author

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of five books and has written extensively about the field of operations management. Shemwell is the Managing Director of The Rapid Response Institute, a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management. He has studied cultural interactions for more than 30 years--his dissertation; *Cross Cultural Negotiations Between Japanese and American Businessmen: A Systems Analysis (Exploratory Study)* is an early peer reviewed manuscript addressing the systemic structure of social relationships.

### End Notes

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ii [http://www.amazon.com/IMPLEMENTING-CULTURE-SAFETY-PERFORMANCE-COMPLIANCE-ebook/dp/B00ILXY7ZC/ref=asap\\_bc?ie=UTF8](http://www.amazon.com/IMPLEMENTING-CULTURE-SAFETY-PERFORMANCE-COMPLIANCE-ebook/dp/B00ILXY7ZC/ref=asap_bc?ie=UTF8)

ii <http://www.dupont.com/products-and-services/consulting-services-process-technologies/articles/key-to-success-oil-gas.html>

iii

[http://www.mckinsey.com/insights/energy\\_resources\\_materials/this\\_is\\_the\\_time\\_to\\_deliver\\_on\\_upstream\\_operational\\_excellence](http://www.mckinsey.com/insights/energy_resources_materials/this_is_the_time_to_deliver_on_upstream_operational_excellence)

iv

[http://www.haynesboone.com/~media/files/attorney%20publications/2015/energy\\_bankruptcy\\_monitor\\_dec28.ashx](http://www.haynesboone.com/~media/files/attorney%20publications/2015/energy_bankruptcy_monitor_dec28.ashx)