

Principles of new asset management in oil and gas industries

In the last decade, internationally, many oil and gas assets experienced an operator change after concessions expired and new operators or national oil companies acquired the rights, or after international oil companies divested old or acquired new assets. Regardless of the circumstances, a transition between operators represents a critical inflection point for an asset. A new McKinsey study brings out that only 20 per cent were executed successfully, meaning they maintained or improved production levels throughout the transfer phase. Between 15 and 20 per cent stagnated, while 60 to 70 per cent declined in overall performance.

Why were failure rates so high? The identified reasons in single are as below:

- a. Lack of collaboration between acquirer and incumbent.
- b. Excessive level of change from day one.
- c. Loss of essential capabilities.
- d. Lack of attention to cultural differences.
- e. Failure to keep the concessionaire or regulator on board or in line with them.

Ten principles to maintain safe, stable operations and build capabilities to maximize value are:

1. Do not lose strong focus on safety, resource allocation and business continuity.
2. Follow a disciplined approach to governance and project management—and act efficiently and fast. Identify key employees and pursue them to remain.
3. Secure step by step capabilities for managing the transition and reducing risk.
4. Keep planning and reporting simply and transparently using agility.
5. Align on critical decisions as early as possible.
6. Conduct early operational baselining to strengthen readiness – ensure quality from sourcing to production.
7. Align with the incumbent through a transition agreement and make it a part of the deal.
8. Minimize change on day one. Continuous absorbable improvement and incremental changes work better than radical changes.
9. Mind cultural integration as rigorously as business integration.
10. Implement plans to capture both old and new values alongside transition activities.

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Reference and reading: McKinsey, Ten principles for successful oil and gas operator transitions, January 2020, <https://www.mckinsey.com/industries/oil-and-gas/our-insights/ten-principles-for-successful-oil-and-gas-operator-transitions?cid=other-eml-alt-mip-mck&hlkid=599bf436daa94b488cfcb0fdbbb87f32&hctky=2540074&hdpid=0b13eb92-fee4-4a18-bfe8-32d2382092d3>