McKinsey & Company

Oil & Gas Practice

Ten principles for successful oil and gas operator transitions

Incoming operators face several challenges when taking over an asset, including managing the transition, improving performance, and capturing value. Ten principles can guide the way.

by Pat Graham, Maximilian Mahringer, and Andy Thain

January 2020

In the past five years, 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 or acquired assets. Regardless of the circumstances, a transition between operators represents a critical inflection point for an asset. On one hand, it gains a fresh lease on life through better access to capital, the adoption of new operating methods, or the application of new technologies that enhance its value. On the other hand, an operator change can trigger instability and increase risk before and after the transition. Indeed, many new operators fail to capture the value they expected.

Drawing on our experience of multiple operator transitions, this article identifies some of the common reasons for failure and highlights ten principles that new asset operators should follow to improve their chances of success. Although this article focuses on how incoming operators can best handle upstream transitions, the principles described also apply to downstream assets, such as refineries and retail networks, as well as to outgoing operators and concessionaires.

What can go wrong?

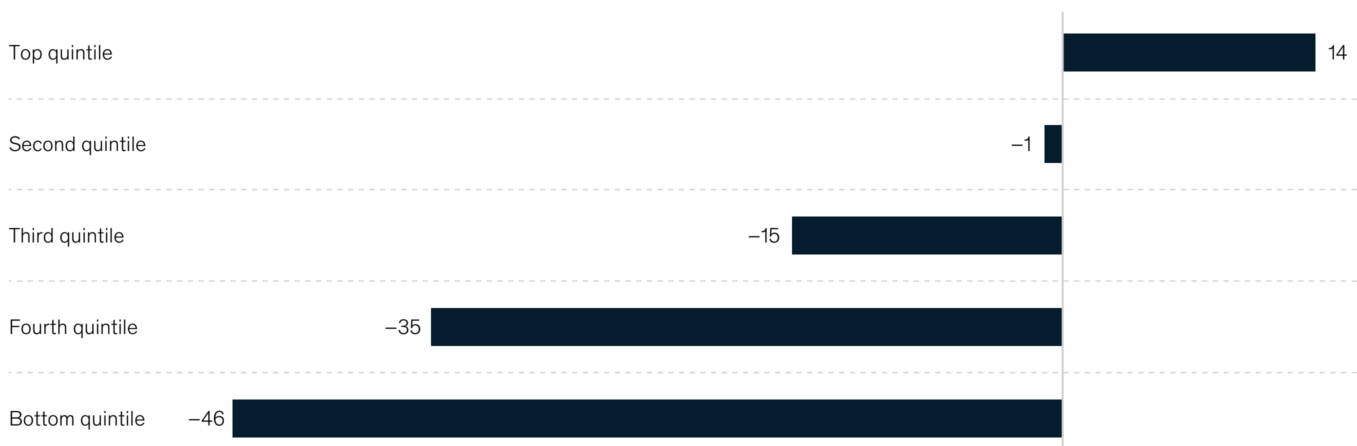
From our analysis of production profiles following upstream operator transitions, we found that only about 20 percent were executed successfully, meaning they maintained or improved production levels throughout the transfer phase (exhibit).[1] Between 15 and 20 percent stagnated, while 60 to 70 percent declined.

[1] We analyzed the performance of 50 assets in Norway and the United Kingdom from 2013 to 2017, comparing production in the two years before and after the operator transition.

Exhibit

Only 20 percent of assets maintained or improved production output during the transition.

Change in daily production during the two years before and after transition, %, n = 50[1]



[1] Data from assets in Norway and the United Kingdom between 2013 and 2017.

Source: The Norwegian Petroleum Directorate; public databases; McKinsey analysis

Why were failure rates so high? We identified several reasons why incoming operators struggled to maintain production output:

Lack of collaboration between acquirer and incumbent. Failing to establish an effective working relationship can lead to multiple issues, such as reluctance among incumbents to invest in areas that fail to yield an economic payback before exit, decline in employee engagement, and challenges in the transfer of data and operating procedures.

Excessive level of change from day one. Transferring operatorship always involves changes to governance, operating processes, and IT systems—some of which will need to be implemented from day one. However, tackling too much change too soon can be disruptive, destroying good incumbent practices and cultural features that the acquirer should seek to retain.

Loss of essential capabilities. When exiting an operatorship, incumbents often relocate critical talent to more attractive prospects in their portfolios. This is particularly true of asset-leadership teams, specialists, and those with scarce skills. Replacing such capabilities can be costly and time consuming for the incoming operator.

Lack of attention to cultural differences. Every operator has their own way of aligning the organization's vision, translating that vision into reality, and finding ways to create business value. No matter how similar ways of working may appear on the surface, different companies often interpret key terms such as "respect" or "risk-taking" in different ways, with different expectations of the behaviors needed to support them. Bringing these differences into the open and deciding which ones need to be addressed, and how, is a vital step in any transition.

Failure to keep the concessionaire or regulator on board. Since many assets make important fiscal contributions to their host countries, and some are strategically sensitive, the concessionaire or regulator needs to be kept fully engaged throughout the transition. As the body that holds the contractual relationship with both incumbent and incoming operator in most cases, the concessionaire plays an important role in mediating conflicting opinions. If the incoming operator fails to engage with and shape the opinion of the concessionaire or regulator, the asset may continue to be run with a short-term perspective on economics and value creation.

An operator change can mark a turning point in the life cycle of an asset. Transitions typically take 12 to 18 months, and how they are handled is critical to maintaining and improving output and preventing disruption. Drawing on our experience of many transitions, we have distilled ten principles that help an incoming operator manage the safe transfer of assets, maintain business continuity, and accelerate value capture.

Ten principles for incoming operators

To maintain safe, stable operations and build capabilities to maximize value, we recommend new asset owners follow ten core principles:

Maintain an overriding focus on safety and business continuity. Incoming operators are often tempted to take on too much during the transition period. Identifying priorities gives clarity to in-house teams and incumbents alike, ensuring that transition resources are allocated to deliver the most critical activities and solve the most pertinent problems. Elements capable of disrupting the transition should be simplified and de-risked and every decision or action challenged with the same question: "If we don't achieve this by day one, will we still be operating safely?" One incoming operator decided to keep the incumbent's offshore safety-reporting system in place for the first six months after the transition, for instance; another incoming operator

Every operator has their own way of aligning the organization's vision, translating that vision into reality, and finding ways to create business value.

chose to retain all offshore organizational structures and work processes for the first year of operation to maintain continuity.

Follow a disciplined approach to governance and project management—and act fast. The new operator should quickly set up and staff a transition management office, ensure functional teams are in place, and schedule leadership review points with clear governance structures. They should also establish weekly touchpoints with the incumbent at both management and functional levels, and foster cross-functional interfaces on key topics. To oversee the transition, the incoming operator should convene a steering committee comprising senior leaders and hold meetings on at least a monthly basis, with the concessionaire or regulator involved as required.

Secure capabilities for managing the transition and reducing risk. In addition to deep operational expertise in areas such as production management, WRFM (well, reservoir, and facilities management), logistics, supply chain, HR, and risk management, the incoming operator needs four more capabilities for a smooth transition. They need transition management skills to support project management and rapid problem solving; IT and systems integration skills to manage system changes, data migration, and infrastructure transition; organization redesign and talent review skills to set up the new organization, make job offers to incumbent staff, and run recruitment campaigns to fill gaps; and change management skills to establish a cultural baseline, support the onboarding of new talent, and acclimate existing employees to new ways of working. Transition teams vary in scale, but a company pursuing ambitious redevelopment plans in parallel with its transition may need as many as 200 full-time staff on the team at peak times. Obtaining skilled resources is often a challenge that can hinder progress.

Keep planning and reporting simply and transparently using agile. We have seen some operators approach a transition as though it were a major capital-expenditure project, with L3 plans, S-curves, and similar. But such elaborate planning is not well suited to the unpredictable transition environment. Operators are better served by an agile approach executed within broad guidelines. That means defining the main checkpoints in the transition, setting deliverables and plans for each one, and rethinking planning as necessary. Successful transitions are often planned around three main checkpoints: the first at about six to eight weeks into the transition period to check that the transition is gathering momentum, the second about two-thirds of the way through the transition to verify key deliverables are on track, and the third about four to six weeks before day one to ensure that the asset is ready for transition.

Align on critical decisions as early as possible. Every transition involves critical decisions between the incumbent and new operator. Examples include which of the incumbent's employees to retain, the organizational structure after day one, strategy for handing over IT (including the enterprise resource planning system), and the broad principles governing the degree of change. Communicating these decisions as quickly as possible is a critical element of change management and helps lay the foundation for the transition team's day-to-day decisions.

Conduct early operational baselining to strengthen readiness. An operator needs a good understanding of the asset they are taking over to accurately assess risks and the potential for optimization. To improve the chances of success over the longer term, the operator should conduct a structured review of the asset's integrity, capabilities, and operating policies and procedures. This helps create a baseline of risk items to be addressed before and after day one.

Align with the incumbent through a transition agreement. Most transitions are highly collaborative, but a transition agreement can still serve a useful purpose in supporting joint planning and ensuring that expectations, obligations, and associated compensation are aligned on topics such as the transfer of data, access to assets for baselining, and the shadowing of work activities. A transition agreement creates a common understanding of day-one activities and acts as a basis for a joint working approach that enables drilling, engineering, and other project activities that capture value to continue.

Minimize change on day one. Some operators adopt a pragmatic approach and review the incumbent's operating model in detail—including processes, organizational setup, and IT systems—while aiming to preserve large parts of it during the transition and stabilization periods. One incoming operator assessed more than 600 of the incumbent's work policies and procedures and decided to change only about 30 for day one, with another 300 to be changed later. The operator preserved the remaining policies because they represented good practice or were closely aligned with the new operator's approach.

Approach cultural integration as rigorously as business integration. To foster integration, the new operator should quickly identify cultural similarities to build on and critical differences to tackle. The best way to start is to conduct a rapid cultural baselining exercise based on interviews, desktop analysis, and, if needed, a detailed survey. The diagnosis can guide leaders in defining a cultural vision and action plan, which should include role modeling, telling a compelling change story, building capabilities for new ways of working, and adapting performance-management metrics and incentives to reinforce desired changes.

Implement plans to capture value alongside transition activities. Leading operators ensure that operational improvement and development planning activities are maintained throughout the transition to support short- and medium-term value creation. Best-in-class operators set up a dedicated value-capture team; failing that, leaders should ensure that all relevant functional teams keep a sharp focus on value creation during the transition as well as in the long term.

Following these ten principles will ensure that incoming operators, incumbents, and regulators always know the status of a transition and the risks and opportunities it presents. In turn, this knowledge allows them to detect any activity that goes off track and act quickly to resolve deviations without threatening the critical path to day one.

In recent years, many oil and gas operators have struggled to maintain and improve production output after acquiring new assets. By following the ten principles outlined above, they can maximize the odds of a flawless transition and rapid value capture.

Pat Graham is a partner in McKinsey's London office, **Maximilian Mahringer** is an associate partner in the Qatar office, and **Andy Thain** is a partner in the Singapore office.