

Oil & Gas Practice

Successful oil and gas mergers: An interview with Wintershall Dea's Jone Hess

Senior Vice President of Integration Jone Hess discusses his experience leading the integration planning and execution of one of the largest oil and gas transactions in recent years.



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In May 2019, Wintershall and DEA merged into Wintershall Dea, Europe's leading independent natural gas and crude oil company. Their combined daily production in 2019 was about 617,000 barrels of oil equivalent. The transaction, first announced in December 2017, increased the competitiveness and future viability of the combined company through the combination of its international portfolio and know-how and is set to deliver over €200 million annual synergies. The merger, built on an aspirational vision and strategy was used as a catalyst for transformation. With a value-capture mindset, it created a new operating model for the combined entity that reimagined how work gets done, changing the way countries and functions collaborate.

To find out what contributed to the success of the integration and what lessons can be drawn, McKinsey's Mladen Fruk and Marc Silberstein sat down in April 2020 with Jone Hess, senior vice president of Integration Project.

McKinsey: *What were your high and low points in tracing the integration journey's milestones?*

Jone Hess: Looking back at what we have achieved over the past two years, it is hard to pick the favorite moments—but there are certain milestones that stood out for me. First, the signing of the transaction. After the first announcement in December 2017, our shareholders signed a definitive transaction agreement to merge their respective oil and

gas businesses in September 2018. Beyond the ceremonial part, it was an important event for us in the integration planning project because it provided the clarity and direction the project needed to get started, by confirming the high-level organization blueprint, synergy targets, and leadership structure. The signing also removed a lot of uncertainty and questions that have been accumulating since the first announcement and injected a lot of energy into the project.

Probably my favorite moment was between signing and closing. In a meeting following our third summit, my counterpart from Wintershall and I got support from the two CEOs on the detailed new organization structure, operating model, and the targets for value capture that would be implemented after closing, from day one (see sidebar, "Using summit meetings as anchors at key points during the integration"). Putting together the fact base for this meeting was a lot of work for the entire integration planning team. The outcome of this meeting provided a lot of clarity and infused new energy—and at the same time empowered us, the integration leaders and the integration planning team, to think about how to execute the significant changes in how the merged company would be managed and organized from day one onward.

Lastly, I always enjoyed the personal interactions during larger events, not only in the integration planning phase but also after day one: for example, the new extended leadership team coming

Using summit meetings as anchors at key points during the integration

Beyond regular integration management office and steering committee, a total of five summits were imbedded into the master plan. These summits usually involved a larger number of participants and acted as a forcing mechanism to complete key integration deliverables, support decision making, and

foster open communication—keeping all stakeholders of the integration planning project aligned and informed.

Topics covered included integration bootcamp, top-down target setting and operating model design, synergy capture,

day-one readiness, and day-one stress testing. In addition, the summits also played a role in the company's culture integration by providing a larger forum for integration team members from the two companies to meet in person and get to know one another in both a professional and social setting.



Jone Hess

Vital statistics

Born in 1968 in Norway

Has lived in five countries across three continents

Married, with 2 children

Education

Master's degree in petroleum engineering from University of Stavanger

Career highlights

Senior vice president of integration project, Wintershall Dea (2019–present)

SVP of merger integration planning project, DEA AG (2018–19)

SVP of field development, DEA AG (2016–18)

Executive vice president of development, E.ON E&P (2012–16)

Operations management, E.ON E&P (2007–12)

Various engineering and leadership assignments in reservoir engineering and operations, ExxonMobil (1993–2006)

together to reflect on achievements, to discuss and understand how other parts of the organization are dealing with the change, and to share ideas and foster collaboration among colleagues.

If I was to think about a low point, the delays and uncertainty that came with them were always challenging to manage. Unfortunately, even as integration leader, I was not able to control everything in this process; for instance, the overall timeline from announcement to closing was partly dictated by our shareholders and regulators. However, every challenge brings opportunities, and I feel that we made good use of extra time given to

us in the planning phase. It took a little extra work to motivate people and to do scenario planning, but, looking back, it was this extra time that allowed us to deliver a smooth day one and build a very strong foundation for the implementation phase post-day one.

McKinsey: *Your industry is used to managing large, complex projects. How is a merger project different?*

Jone Hess: I would group the key differences under three categories: process and output, people, and risk. The process to develop an oil and gas field, for example, is very clear from the start. There are

defined stage gates along the way, the decision points and decision makers are well understood, and the final output is clear to everyone early on. For example, you don't change from a subsea tie-back to a stand-alone platform development after the financial investment decision. In mergers there is a lot more process uncertainty. There are best practices and guides to follow, but every merger situation is different; despite having a high-level blueprint for the new organization, working out the details and debating the different options was part of our daily work through the integration process.

We also had to define some of the stage gates ourselves: for example, what we want to do by day one and what can be done later, or a proposal on key decisions to be taken by the integration planning steering committee before day one (to the extent legally permitted) and the new board after day one. In mergers, there are also a lot of interdependencies to manage, which do not allow for a strictly linear project-management approach.

This brings me to the second point: people. Large mergers and integrations are rare, or at least less frequent than our daily business of finding and developing hydrocarbons; as such there is a lot less in-house expertise to execute such a project. This project was a learning experience for all of us. Unlike in our daily work, where one's deep expertise and experience is of vital value to a project, this integration planning project often forced people to think differently, to let go of biases, and to challenge ways of working that have been institutionalized in the respective two organizations over decades.

Last, the oil and gas industry is known for its thorough approach to risk management. We follow standard protocols and have ways to quantify all kinds of possible risks. The types of risks in an integration project are slightly different, though. For example, identification and mitigation of people and culture risks is not something that comes second nature to oil and gas engineers.

McKinsey: *What are the initiatives you are most proud of—where you had the biggest impact in shaping the new company?*

Jone Hess: Integration is a team effort. Surrounding yourself with the right people who are motivated, have a forward-looking mindset, and can look beyond “this is how we have always done it” is of utmost importance.

I am proud of everything we have achieved so far, especially when keeping in mind that, despite these being two Germany-based oil and gas companies coming together, the culture and ways of working between the two was very different—something I didn't appreciate at the start of the project.

Let me differentiate between the pre-day-one (integration planning) and the post-day-one (integration execution) phases. I believe the merger planning team had tremendous impact on the new company by providing the leaders of the new company with the best possible start. I suspect we were given more time than other integrations during the planning phase, but we really made the most of it. We spent a lot of time detailing the new operating model, defining how we would work together in the future, developing a catalog of actionable initiatives for value capture, and making sure leaders were equipped for their new roles through in-person onboarding workshops, and handing out tailored handover documents in the form of transition guides. To this day, I see senior vice presidents and vice presidents referring to these transition guides when discussing how the target state should look like and how to get there.

Reflecting on the post-day-one phase: I am personally proud of the integration planning team's contribution to creating a more performance-focused culture. This process is by no means finished, but the journey has started. This mindset was first featured in the first leadership onboarding workshops pre-day one, it impacted the performance scorecards that were implemented

shortly after day one as well as remuneration that was tied to those scorecards and the quarterly performance dialogues that followed. We launched various initiatives to look beyond traditional synergies to create value by changing the way we worked together and thinking about how we best leveraged our capabilities—using the merger as a catalyst for transformation. One-on-one and small-group coaching and workshops also contributed toward explaining and reinforcing this mindset shift. To my surprise, I noticed this shift in business units that were not directly impacted by the merger—that is, where our two portfolios did not overlap. These business units really embraced the way we thought about value creation in the context of the merger and used the energy and momentum of the merger to enact a step-change in how they think about performance and value creation on a continuous basis.

McKinsey: *Taking a step back, what key lessons would you pass on to peers embarking on a similar integration journey?*

Jone Hess: It's easy to be proud of a successful outcome but true lessons come from failures—or from near-failures, when you have to change course, reassess the situation, and try a different approach. Upon reflection, a number of these situations in this integration are worth synthesizing and sharing with others. I would like to touch upon four.

First, make sure there is a clear deal rationale and that it is known to everyone—not just the board or the integration planning team, but the entire organization. The reason why this transition is important might be slightly different for different stakeholders, but the overarching message should be consistent and clear to everyone. Not only does a clear deal rationale create alignment and an immediate connection between two organizations, it also provides an anchor for the integration planning team. The deal rationale informs the target operating model, the importance and size of value capture, the leadership appointment process, and so on. It won't give all the answers, but it will tell the integration planning team where the road needs to end up and lets the team build that road.

Second, communication, even overcommunication. A merger is unlike any other corporate event: it requires more than a couple of news announcements and blog posts on the intranet. Having a well-detailed communication strategy comes a long way in unifying the company. Don't wait for day one, when you might have a shiny new logo and corporate identity to publicize; communication starts before the integration planning commences. Think about how the CEO first communicates the deal rationale to his or her integration leader, how to align communication between two separate organizations until day one, determining which steering committee decisions need to be communicated more broadly to employees and in which format, determining how and when to respond to rumors and ensuring two-way communication, and listening to concerns and questions that surface among employees (before and after day one).

Third—and this will not apply to every transaction equally—engage the works council early and collaboratively. It helps to understand up front what information is needed for the works council consultation process; integration planning deliverables then can be tailored to this process, and the time and resource requirements can be factored into the integration master plan.

Last, thinking about a key lesson post-day one, I would consider how integration activities can be handed over to business owners early. It is important to find the right balance between providing leadership and guidance after day one while also stepping aside and empowering leaders to execute integration activities on their own.

McKinsey: *What did you personally learn through this merger integration?*

Jone Hess: The importance of culture, being comfortable with uncertainty, and challenging conventional wisdom are three lessons that come to mind.

I have learned a lot about culture and to not underestimate or underinvest in it. Culture is more than just a similar vision or strategy, having the headquarters in the same country or being in the same industry. The definition of culture that stuck with me is “how behaviors and mindsets shape how people work and interact day to day”—in short, how an organization gets work done. A culture integration or transformation starts with a deep understanding and appreciation of where we come from. Failure to understand this will make it even harder to ask people from different organizations to move forward together, forget their past, and embrace new behaviors that live up to the new corporate culture.

This merger also taught me to be comfortable with uncertainty in change situations: to be flexible and brave to change an approach even halfway down the road. I learned that there is no one-size-fits-all integration manual that gives you every answer. Some things only become clear along the way, or they need to be developed with a blank sheet of paper to consider the specific circumstances and variables that apply to that situation.

My final lesson was about thinking big: challenging conventional wisdom and not limiting myself early on in the process. I really benefited from having people in the room who provided an external perspective, who were not biased, and who challenged me and my team to think beyond what we were comfortable with or used to.

McKinsey: *Can you share any reflections on the impact of COVID-19 and the oil price drop in the context of delivering this integration, especially given the unprecedented times we find ourselves in?*

Jone Hess: Like most companies, we have diverted a lot of resources and attention toward managing the crisis and planning for what comes next. Many leaders were asked to reprioritize and focus their attention on shorter-term targets related to employee safety, business continuity, and cash management. Of course, this also impacted the integration efforts. Having said that, I feel that this merger prepared us well for such a crisis. Not only do we have a strong balance sheet, a diversified gas and oil portfolio, and low unit-operating costs, but I also see a lot of the tools and methodologies that we introduced during the integration planning phase being applied to manage this crisis. Many leaders are using the approach to identify integration value-capture initiatives to come up with ideas to preserve cash and optimize operations today. People across the organization are much more comfortable dealing with change and thinking of new ways to get work done.

Lastly, in some ways it feels like this crisis helped catalyze the integration to make bold moves—for example, rethinking legacy processes or how we spend our time. I really hope that some of these new ways of getting work done (such as faster decision making, shorter meetings, less documentation, being more digital, and having higher focus on HSE¹ and value) are here to stay and that old habits don't creep back over time.

¹ Health, safety, and environment.

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