



# Localisation: a vital opportunity for global players to act local

# Localisation: a Vital opportunity for global players to act local

In the global oil and gas industry, skills transfer from the engineers and managers of International Oil Companies to staff working locally for National Oil Companies is an important route to greater efficiency and productivity. And it relieves some of the pressure on scarce human resources. Everybody benefits, potentially. Carried out successfully, so-called 'localisation' projects make a major contribution both to output and to good working relationships. But smooth and effective implementation is everything.

## Executive summary

The global oil industry faces a real challenge in the shape of an acute shortage of highly qualified petroleum engineers – and the situation is going to get worse not better, based on current trends. It will take several years for the size of the skill base to come back into sync with industry demands, even if all the corrective actions in key areas such as undergraduate recruitment were taken today.

The only feasible response in the short and mid-term is dramatic increase in the scale on which International Oil Companies – IOCs - and other specialist oil technology groups, transfer skills to National Oil Companies - NOCs.

One potentially very effective way to do this is through the 'localisation' approach, where scarce skills are transferred quickly and sustainably to local operators. However, experience shows that while localisation is easy to advocate, it is less easy to put into successful practice. To create effective and lasting localisation programmes, at least three critical factors need to be carefully managed:

- Critical factor 1 – **mutual gain**: there needs to be 'something in it' for both parties – a win, win that means IOC and NOC gain something tangible and valuable from the exercise
- Critical factor 2 – **fast and focused progress**: both parties need to see swift progress in the context of a well-defined, fast track engagement
- Critical factor 3 – **productive collaboration**: both parties need to be able to work together effectively at the micro-level – along with good intentions, good working practices are needed. These must overcome cultural and process differences to arrive at sustainably increased, locally staffed production for the NOC and release of expensive human resource for the IOC. And they must be built on trust and mutual respect.

## **A challenge for the long-term that needs rapid responses now**

The expansion of the oil and gas industry to meet world energy demand involves immense capital projects and a huge call on skill sets that are in short supply. How short is short? As a single example, the United States had some 11,000 students of petroleum engineering in training in 1993. By 2007, that number had fallen to just 1,700. Yet the industry is booming and demand is running at an all-time high. So there are clear advantages both in being able to use these scarce human resources more effectively and in passing on their knowledge to local operators so that, in effect, the skill base expands. Localisation can help to achieve both these ends: better use of existing qualified personnel and more skills for local workers.

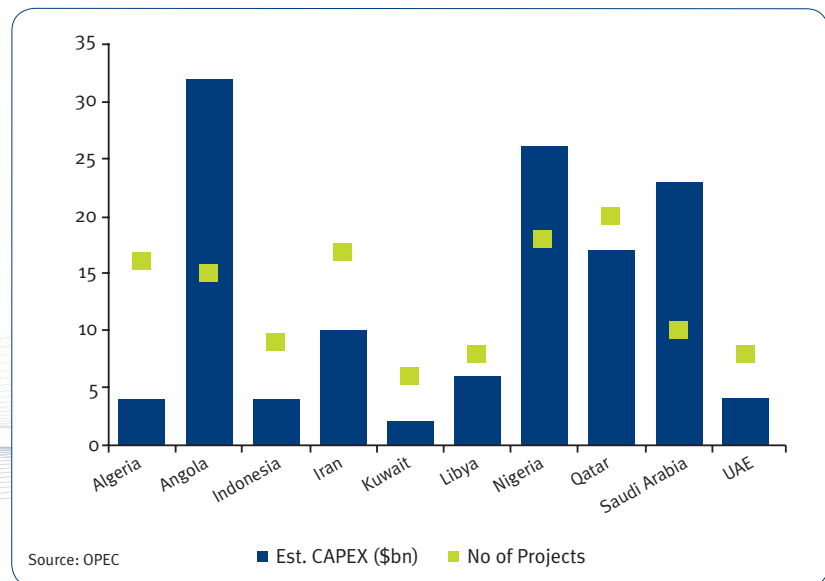
### **Skills shortages – a brake on productivity**

For the International Oil Companies (IOCs), the effects of specialist skills shortages have become acute. They include increasing reliance on expensive contractors and the need to deploy scarce and costly expatriates, often in remote and challenging locations. And for the National Oil Companies (NOCs), shortage of appropriately skilled staff on the ground is a bar to exploiting a crucial natural resource with optimum efficiency. For many NOCs, their status as principal contributor to their country's economy – Mexico's PEMEX for example generates 40% of Mexican tax revenues – is driving them to consider new approaches to the challenges of fully leveraging a vital asset. Those approaches include localisation.

## National Oil Companies, expansion and limitations

It is estimated that the National Oil Companies currently control around 90% of the world's hydrocarbon reserves. Unsurprisingly, their desire to profit from global energy demand has never been greater. And they have ambitious plans for growth. OPEC for example is planning massive upstream investment – as the chart below illustrates:

### OPEC Upstream Investment plans as of September 2007. But where will they get the engineers?



But ambitions could be blocked if the skills needed to deliver projects remain in such acutely short supply. “Not many developing oil nations produce large amounts of engineers,” reports Tim Hartley of Harvey Nash, a global recruitment company, “but with the global technical labour market so restricted it can make sense for these nations to partner Western companies.”

## Localisation - a real chance to act local while thinking global

Despite occasional nationalist rhetoric, many governments are realising that their NOCs need external help. “The flowing capital and superior technologies of IOCs are both attractive additions in the bid to boost production, and so more cooperation between IOCs and NOCs is most likely” notes a City analyst. But getting it right with the ways help is delivered is what will create a win win situation for all concerned. And getting it right means understanding and engaging with the three critical factors of successful localisation: mutual gain, fast and focused progress and productive collaboration.

## Critical factor 1 – mutual gain

If localisation is to work for anybody, it has to work for everybody.

### Acknowledging and understanding the background issues

NOCs want to avoid being exploited. IOCs don't want to risk considerable long term investment that could be in jeopardy from appropriation – an ongoing experience they are keen to minimise.

### Engineering reciprocal benefits

The model is straightforward in principle. IOC expatriate staff quickly transfer work practices, skills and technologies to local workforces who become more effective and more efficient. A better performing asset is left in the hands of mainly national staff and national governments can take credit for increased production and a lower proportion of expatriate labour. The IOC meanwhile can redeploy their expensive expatriates elsewhere, since they are no longer tied down, often working below their real skills level on an over-manned asset.

When localisation works successfully, there is no doubt that local perceptions of IOCs improve. But engineering truly reciprocal benefits requires up-front attention to a number of key issues. It will not be feasible, for example, to transfer every skill in a short space of time. Therefore, the most appropriate skills for each individual situation should be identified early. The ways the skills themselves are transferred needs to be systematic – replicable and scalable - so that transfer can happen successfully on more than one occasion. And the profile of the people involved needs to be carefully considered. A core group of local supervisors needs to be identified quickly at each asset and trained thoroughly, so they can pass on the skills they learn effectively and with confidence.

At all times, testing and measurement are fundamentally important. Skills transfer programmes should be devised to allow for early testing through pilot programmes. This avoids large scale roll-out of untried approaches and ensures that early learning can be fed back into the skills transfer process. As an ongoing activity, transfer effectiveness should be measured against clear criteria. It should never be assumed that people are ready to apply new skills or to occupy a new role until their competence is established. The transfer process must be rigorous and not a 'tick box' exercise.

## Critical factor 2 – tightly defining a productive fast track engagement

A localisation project is ‘a date not marriage’. It is a mistake to view localisation projects as ongoing across greater lengths of time. They are not. Expatriates arrive at an asset. They do their job, share their knowledge and then go away again. Typical time spans are more in the order of 6 to 12 months than 6 to 12 years.

The IOCs are not looking at hugely profitable long term production sharing agreements of the kind President Yeltsin signed. Any IOC/NOC joint ventures in the localisation arena are likely to be far more tactical and immediate in their scope. “It is clear that the Secretary-General was talking about short-term agreements that remain under the control of the NOC,” says a senior manager from Saudi Aramco.

But short term certainly does not equate with low value. Capacity release – freeing up of existing human resource – from an asset where a successful localisation programme has been carried out can routinely be expected to reach 20%. And a release rate of 30% is not unusual.

### It takes specialist skills to bridge the gaps

Skilled third party advisors can play a valuable role in smoothing the path towards effective localisation and in making sure that the focus remains on rapid delivery of results. Taking one specific case - a localisation project in the Middle East – specialist input played a measurable role in addressing the critical success factors. “The consultants, having secured clearly defined expected outcomes to work towards from both the IOC and the Oil Ministry, brought together the expatriates and locals to establish best practice for the technical systems and processes of the assets in scope,” explains the senior project leader. “The skills and organisational structure needed to support this best practice were then identified and the gaps mapped.”

Working to a tight schedule, extensive coaching was given to the local workforce in the areas required, through a collaboration of expatriate, local manager and consultant. These mixed teams further helped to defuse initial hostility towards the project.

## Critical factor 3 – achieving productive collaboration

To produce more than they did previously by giving and receiving expertise, people have to be able to work together.

## Overcoming the barriers of different cultures and different working practices

Again, the involvement of independent third party facilitators can help turn misunderstanding into trust and initial suspicion into long term mutual respect. IOC and NOC cultures, inevitably, will not always be fully aligned. IOCs, even with their centralised mechanisms for ensuring best practice transfer in key areas, already find it challenging to achieve sustained operational change. And those difficulties are compounded by language, social and other communication barriers when working with NOC staff. Then there's the reality on the ground of over-staffing and under-skilling, inexperienced or politically motivated appointments and unwillingness on the part of the IOC's employees to entrust key task to the local workforce.

For localisation to work for all concerned, the challenges and the misunderstandings have to be overcome quickly and in very practical ways. And the approaches needed for success can be accessed quickly and effectively through external specialists. Good specialist input leads to measurably positive results.

The legacy from the Middle East project referred to earlier is a workforce that is now more than 95% local and has achieved a production increase of some 5%. The benefit for the IOC was the ability to redeploy a large number of experienced, and expensive, engineers and managers onto other projects in different countries. The positive impact for the NOC was even more impressive. Successive audits are revealing ever-improving production targets and a continually reducing expatriate workforce – proof of real cultural change. “The key was in getting the two sides to trust each other, which wouldn't have happened without encouraging them to communicate through joint training sessions and new management systems” confirms the senior project leader. Proven localisation consulting experience is also involved in many comparable projects, using direct industry knowledge and effective approaches to people, and the work they do, to help align cultures and expectations and deliver shared results.

As IOCs press for access to hydrocarbon reserves and NOCs grow in awareness that their operations are not always optimal, there are plenty of opportunities for rewarding joint ventures of the kind just described. Impressive capacity release and cost (of expensive skilled expatriate labour) avoidance are a distinct and measurable possibility. But collaboration in principle and at a strategic level will mean nothing without subsequent operational success.

The heart of successful localisation is good and appropriate implementation. The key to that implementation is effective engagement with the critical success factors identified here. And effective engagement derives from the right blend of good working practices combined with a recognition that it is people not process who make a workplace and its culture and that, if the culture is to be positive, trust and mutual respect need to be built quickly and on an enduring basis.



## About the Author

### David Smith, Vice-President, Energy Sector, EMEA

Over his thirty years in business development in professional services, David has led the development of a significant number of client relationships across the globe – from the North Sea to the North Slope – and across the full span of energy industry operations. David’s relationships with clients – at super majors and independents alike – have been the platform for the delivery of significant, measurable value to Celerant’s clients in the industry over the past two decades totalling in excess of \$1 billion.



## About the Author

### Ian Jones, Vice-President Operations

Ian Jones is a Vice-President of Operations with Celerant, with over a decade of experience in the design and implementation of major change programmes. The majority of his time has been focused on delivering change in the Energy Sector, both as a consultant, and also within industry. During his time in industry, Ian held the role of Business Improvement and Performance Manager for one of the global super majors, leading a number of internal improvement initiatives, including: cost management and control, production performance reporting, and management of outsourced operations. Ian’s work within the industry has taken him across the globe, allowing him to build on his experience of engaging with staff at all levels to drive measurable and lasting results, both with International (IOC) and National oil companies.

We have offices in 10 different countries and we will always go where our clients need us to be.

If you want a conversation about the ways we can help your business achieve results, every time, you can call us on:

Americas	+ 1 781 674 0400	Germany	+ 49 (0) 211 58 33 00 33
Belgium	+ 32 (0) 2 762 52 38	The Netherlands	+ 31 (0) 20 570 5400
Denmark	+ 45 35 45 90 01	Norway	+ 47 22 43 29 23
Finland	+ 358 10 396 8800	Sweden	+ 46 (0) 8 670 6579
France	+ 33 (0) 1 56 69 53 00	United Kingdom	+ 44 (0) 20 8338 5000

[www.celerantconsulting.com](http://www.celerantconsulting.com)

