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## Favouring the brave

Paul Navratil, Oil and Gas Consulting Head, Deloitte & Touche Middle East, on the transformation of national oil companies

National oil companies (NOCs), such as the Kuwait Petroleum Corporation (KPC), are facing an unprecedented environment of radical change that is creating new parameters that require urgent action. Extreme volatility in commodity prices, broad shifts in demand, changing reserve portfolios and a growing need for a global strategy are driving NOCs to the realisation that a new way of doing business is essential for the future.

Risk is nothing new to the global oil and gas industry. In fact, both have been leaders in developing responses to physical infrastructure risks for decades. However, a more intangible set of risks now faces the industry, and NOCs in particular must learn to develop and implement appropriate responses. We are entering a new era of challenges with potentially overwhelming consequences that demand swift action.

NOCs need to complete their evolution into truly commercially minded companies, focused on creating value and supported by a corporate environment that will effectively enable informed decision-making. While NOCs are at a strategic turning point, internal pressures still exist for them to fulfil a larger social or national agenda. The challenge is for NOCs to build the operating model of the future without neglecting national success factors that will continue to be a priority.

Potential strategic alternatives are structural and tactical in nature. NOCs are undertaking programmes of operating model simplification, governance realignment, innovative joint ventures and partnerships with international oil companies and other industry players, external branding and image-building, and downstream expansion into key international markets of the future.

The current global economic crisis reinforces the obligation of global industry leaders and NOCs to address the challenges they and the international community face. One key success factor for NOCs is that they view the current global upheaval as a window of developmental opportunity, rather than a threat.

Perhaps the greatest risk to the industry is neither operational nor financial: it is the human factor. The lack

of human capital is a direct and immediate threat to this industry. Deloitte Middle East estimates indicate that between 30% and 50% of the leading NOCs highly skilled workforce will be of retirement age within the next 10 years. This trend, coupled with extreme competition for skilled workers from the expanding private sector, leaves the NOCs wanting. It is a serious threat that challenges their ability to fulfil their obligations to their governments, state budgets and support of domestic economic growth, not to mention the efficient supply of international oil markets. The impending labour supply crisis will require NOCs to take immediate action in developing talent strategies to attract, retain and deploy staff effectively by engaging people in a common vision to increase efficiency and drive down cost.

Moreover, NOCs must recalibrate their concept of risk. Like other global energy companies, NOCs must make strategic decisions in the face of uncertainty. Whether to build, where to build, and how to configure sustainable, capital-intensive assets — these are decisions requiring bold assumptions about market conditions and product specifications far into the future. These factors make it all the more important for NOCs to embrace intelligent risk-taking. The perceptive NOC understands risk management is as much about seizing opportunities to create value as it is about managing risk to preserve value. Establishing a risk-intelligent environment requires a change in organisational behaviour as well as in the culture of the business, including the way in which risks and risk-taking are perceived, and how risks are embedded into core business processes.

Corporate transformation, human capital and enterprise risk management are just some of the unique challenges that will likely face many NOC executives in the years ahead. The manner in which different companies choose to address these challenges may well determine their level of marketplace success in the future. Those companies that are successful will most likely be the ones that embrace the old adage, "Fortune favours the brave." The time to take action is now.