Building relationships

13/08/2013 | Channel: Support Services

David Archer and Alex Cameron discuss relationship risk and the challenge of partnership working in oil and gas

"Mind the gap" – it's a phrase every visitor to London has heard a thousand times. Originally recorded in the 1960s as a short automated announcement to passengers to watch out for the gap between the platform edge and the tube train door at curved station platforms, it's become an English language cliché. But as a safety announcement it contains a simple truth. People have always known that the greatest risks in any system are at the boundaries between one part of the system and another – and that's never been truer than in today's interconnected business environment.

The oil and gas sector is more experienced than most at working in this 'interconnected' manner, and it might be reasonable to suggest that some sectors newer to partnership working (transport or Government, for example) might have something to learn from the experience in the energy industry. But we all know that it's not so easy to make these partnerships work over time. There are inherent risks in sharing control with other organisations and being dependent on their performance to deliver your business objectives. And when these arrangements go wrong, the consequences can be catastrophic. There's no need to go over the lessons from Macondo or Piper Alpha here, but it's worth reflecting on whether we are paying attention to all the right factors in these complex interconnected situations.

Identifying relationship risks

Risks that originate in your partner's organisation, or risks that arise because of the interaction (or lack of interaction) between two organisations, need a place on a joint risk register. They also need to be watched carefully because these relationship risks have their own peculiar characteristics that make them particularly difficult to manage.

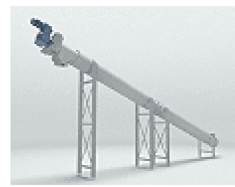
US Defence Secretary Donald Rumsfeld was ridiculed for his remarks about 'unknown unknowns' with regard to Iraq's links to terrorist organisations, but there was some truth behind his scrambled syntax. Conventional risks registers deal in 'known knowns'; risks whose impact and likelihood can at least be reasonably estimated. These risks are comfortable for engineers to handle, but when risks are being managed across an organisational boundary, things are never that transparent. It's difficult to interpret the potential warning signs that may be seen coming from within your partner's organisation and, in turn, it's difficult for them to understand the signs from your organisation. Trying to manage relationship risks brings us into the world of 'known unknowns' and 'unknown knowns'.

Known Unknowns

In these situations you know your own organisation has some vulnerability to how your partner may operate and you may be unsighted on their lack of technical competence, the capability of their subcontractors, etc. But what is largely unknown is the likelihood of your partner triggering this risk by their actions. It's difficult to get your partner to let you know their vulnerabilities, particularly if they have over-sold their capability when they contracted with you.

This is particularly true when partners are working across different organisational cultures: all the subtle cues that would indicate that something is wrong aren't there. In

HIGH TECH WIRE AND SHEET METAL WORKS



fact, there may be cultural barriers to discussing problems or failings, and so the risk to project, well or developments are unquantified.

Unknown knowns

Then there are the situations where you simply don't know what your partner knows – the unknown knowns. These could be instances where your partner has uncovered a problem or a potential risk and is working very hard to resolve that part of their process before telling you, or anyone else, about it. These situations can sometimes be described as 'guilty knowledge'.

These may be risks that haven't been considered: issues that had not been conceived as likely ever to pose a problem. And from your partner's point of view, these can look like risks that are contained totally within their own business: things that are their responsibility to resolve, with little or no knock-on impact on their partners. But the lack of onetransparency and unwillingness of one partner to talk to anyone else about a problem because they think they have it under control again creates an unquantified risk.

However, in order to build a resilient collaborative partnership – to be able to explore the known unknowns and the unknown knowns - both sides must be committed to talking about their attitude to risk and to understand their own and their partner's risk profile. In our experience this goes far beyond a simple high, medium or low risk profile rating and means understanding more about your partner's business, its culture and its history.

All our attitudes to risk are informed by what we have seen going wrong in the past, the price we have paid for it and the lessons we have drawn from the experience. But how does the industry put this experience into practice?

Tackling relationship risk

When it comes to addressing relationship risks and building a management framework for handling them successfully, we can't just depend on the usual approaches to risk management and the creation of risk registers. It comes down to a balance between three aspects of how the partnership is run, namely Governance, Operations and Behaviours. Of course the amount of effort required in each will depend on the specifics of the situation you face, but a risk management plan that only addresses one or two of these areas will be less resilient than one that addresses all three. And this needs to be set up at the start of any new partnership – at the point where the ink is still wet on the new contract and there is sufficient goodwill to make it work.

Governance: The first step is to build relationship risk management into the formal governance process. All organisations and projects have risk registers that should be reviewed. But, in our experience, these risk registers often don't focus on the partners' real worries and fears. Issues as complex as the relationship between organisations are rarely identified in these documents. If the future success of the venture depends on building strong partnerships, then there needs to be an agreed process to check that the risk register reflects the need to manage relationship risks that could be overlooked. This will mean addressing some sensitive issues that can't always be quantified but are likely to be the issues that keep partners awake at night.

Operations: Operationalising the early warning systems is an important factor in the effective management of relationship risk. Experienced managers pick up signs intuitively – something just doesn't feel right – but, between organisations, these feelings are often dismissed. These early indicators might include one party being excluded from a task, a key person being unable to attend an important meeting or the late delivery of a report, etc.

But what happens when warning signs start to emerge from such a system? Here it's important to have the right set of incentives and sanctions to hand. In a complex technical environment such as oil exploration, equipment can fail, people can make mistakes, but the consequences are much more dangerous. A robust relationship risk system will incentivise partners to identify these early indicators and communicate them early to partners.

Behaviours: Formal risk governance and efficient joint safety management systems are essential foundations for relationship risk management, but they are not enough. The behaviour of leaders plays a crucial part in setting the culture of the relationship and building its appetite to risk. Like any marriage, strong enduring relationships don't happen by accident and they have their ups and downs. Business relationships also need tending carefully too. This means leaders must recognise the need to invest their own time and resources in building those relationships when the partnership is going well so that the goodwill built up can be drawn down when times are tough. If these relationships cross cultures, as they so often do in the oil and gas sector, this can be seen as a reason to keep your distance. But this natural reticence should be tempered by the need to establish open and effective communication and trust in these relationships. This has to be the priority for the leaders of the partnership.

The future is more collaboration and so more relationship risks

The response to the high profile disasters of the past means more scrutiny from regulators and new ways to respond to avoid environmental impacts. Take the example of the industry-owned co-operative Oil Spill Response Ltd, which exists to respond to oil spills and works with other industry organisations to share experience and develop knowledge. Here is an organisation that has to have collaboration in its DNA: it can only deliver benefit to the industry in times of crises by using the knowledge, contribution and goodwill of all the participating organisations. This means that if the relationships between these partners don't work, then the risks in times of crisis are significantly increased.

And the greatest risks in an interconnected partnership are often found at 'the platform edge' – the points of high interdependence between different parties. These are where relationships matter, where communication needs to be effective and trust needs to be high. Yet the greatest opportunities are often found at precisely the same points. Here different organisations have to work closely together. This can be tricky, but the friction can also be creative: people challenge each other's assumptions, ask apparently stupid questions that make people see in a new light, and posit different ways of doing things. But this won't happen without individual leaders taking relationship risk seriously. Successful leaders in the oil and gas industry have always been those who can manage relationships well. In an even more interconnected world in the future, the skills of collaboration and relationship risk management will become critical.

The leader's response

In essence, we would suggest that leaders have four imperatives with regard to managing risks that could result in failure or worse.

- Leading across a partnership means you have to deal with the paradox of shared control. To create more systemic control of joint risk means that you need to let go of some aspects of control and focus on developing an open and trusting relationship with your partners.
- Leaders need to be skilled at effective communication that transcends cultural differences. This means being prepared to admit to some vulnerabilities in your own organisation and encourage your partners to do the same so you build resilient ways of managing risk together
- Set up any partnership in a manner where relationship risks are explicitly addressed as part of a risk management process – risks have their own place on the risk register.
- Be aware of your own attitude to risk and what drives it. Does this fit with the risk profile of your own organisation and with the demands of the objectives of the partnership or project?

Socia Ltd

David Archer and Alex Cameron are co-directors of Socia Ltd, a consultancy specialising in advising private and public sector leaders, leadership teams and boards on managing critical business relationships. Their oil and gas sector clients include Premier Oil, Salamander Energy and Ophir Energy.
They are co-authors of 'Collaborative Leadership – Building relationships, handling conflict and sharing control' (Routledge, March 2013).

For further information please visit: socia.co.uk

Copyright © 2013 Schofield Publishing Ltd - Web site design by Selesti