

## **Petroleum Sector Analysis**

The usefulness of the transformation process in operations management within the hydrocarbon sector

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## About the Author

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She gained a MBA in International Oil and Gas Management (Merit) and a Master of Laws (LLM) in Petroleum Taxation and Finance at the CEPMLP, University of Dundee. This followed by a Diploma in Hydrocarbons and Mines Laws, a Specialization in Tax Laws and a Public Accountant bachelor degree in Venezuela.

Ms Parra was awarded in 2014 one of the highest international development recognitions produced by the United Kingdom Foreign and Commonwealth Office: the Civilian Service Medal Afghanistan for her technical assistance and capacity building work in Afghanistan.

Since 2010, she is Honorary Associate Staff of the Centre for Energy, Petroleum and Minerals Law and Policy (CEPMLP) at the University of Dundee.

Ms Parra is an effective advisory provider as well as training, mentoring, coach, research and capacity building manager for public and private entities recommending adequate administrative, legal, contractual and transparent policies in a consistent manner aligned with country's legislative framework and organization's goals.

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## 1. Introduction

The process of understanding the external circumstances in order to properly analyse the internal course of actions of an organization that motivate workers towards change in the production process constitute the study of the transformation process in petroleum operations management (Mangelsdorf, 2014).

Why do organizations need to transform processes? And why do managers need to dedicate their time and efforts to this?

The answer could be explained based on the following criteria:

- I. Sales have gone down for a number of years
- II. Financial indicators do not show a strong cash position
- III. The federal or national government is introducing higher taxes and royalties that are affecting company profits
- IV. Shareholders are receiving less returns
- V. Companies reputations are being affected by the mismanagement of funds on the Chief Financial Officers or Directors behalf
- VI. Competing companies are gaining a larger share of the market
- VII. There are new competing products in the market that require the organization to invest in new technology in order to increase their competitive advantage
- VIII. Clients are not satisfied with the services that the company provides
- IX. Certain areas of the production chain requires workers to receive additional technical training in order to be able to use new machinery
- X. The clients are not receiving quality products within the agreed timeframes

In summary, it is likely that organizations may be forced to close down their company if related managers and staff do not acknowledge a real need for creating products or services societies are willing to consume or use, as context and external trends evolve.

It may be difficult to motivate people to make the internal resource adjustments that some lines of production need without knowing what is required to change and why.

Hence, it is important to acquire the right information from the market, evaluate the competitors, review current lines of productions, hire or train qualified peoples, and buy the correct materials in order to finance oil and gas production processes.

In other words, in order to go through a complete and profound evaluation process, activities within organisations need to be modified to come up with products or services that could add value to community members, including their impact on the environment (Boddy, 2014).

## **2. The transformation process in operations management**

In operations management, once managers recognize what peoples' interests and needs are, they can be clear on the workers capabilities and their roles, as well as available resources (finances and materials).

Consequently, they can find ways to optimize and transform their business plans and projects. The companies that can minimize waste would be the strongest financially. To be able to do so, creative and thoughtful managers will implement within their team the necessary activities required preferably in ways workers are content with them so commitment and productivity are achieved.

## **3. The relationship with the transformation process and the strategic and tactical levels of the organization**

The evaluation of workers' competences is one of the key factors within the transformation process. Bringing the best of their capabilities to align them with the aim of the organization at the strategic executive level, once line managers reach to an agreement on where the company should be directing their aim at, is imperative (Martin, 2006).

Managers and supervisors, along with human resource departments would be the most appropriate persons to inform about new competences required, including and evaluation of how is the tactical level doing their work, if they have adequate information technology systems and procedures in place, and what is required to achieve a particular production goal.

Planning, organizing, leading and controlling activities are part of a manager's role. Without the understanding of the level of tangible and intangible resources that are available and required it will be difficult to promote change at a workers level (Boddy, 2014)

## **4. Examples of transformation resources, transformable resources, the transformation process, and outputs in the hydrocarbon sector**

Within a certain specialized division of an oil and gas downstream organization that is highly capital intensive, the treasury manager and team seek to optimize cash management in the following ways:

- ✓ By providing incentives to clients to pay goods produced and/or services rendered earlier and/or find new suppliers that would offer better prices or offer a higher line of credit.
- ✓ By reducing the amount of costly financial instruments, such as long term bank loans.
- ✓ By minimizing the need to sell current assets in order to transform them into cash for the purchase of raw materials to be used to develop new products.

- ✓ By evaluating the need of acquiring hedge or bank guarantees to cushion the risk of foreign currency losses.
- ✓ By looking for new goods, and more competitive service suppliers, and contractors than the ones the organization have had in the past.
- ✓ By evaluating the competences, strengths and weakness of each member of treasury, so the roles are clearly separated. At the same time, rotation of functions are possible so the members have the chance to gain in technical knowledge and experience to take on more responsibilities and to feel more motivated
- ✓ By improving treasury department communications within other departments in the organization, such as accounting and procurement to acknowledge current sales and purchase conditions and processes.

Another example could be to establish a formal evaluation of international and national laws and regulations within the legal division of a hydrocarbon exploration and production project that govern the activity to be performed such as international investment treaties, avoidance of double taxation treaties, constitution rights to exploit resources, oil and gas laws, regulations, decrees and policies, environmental legal framework, employment and immigration regulatory framework, consumer protection act, and procurement and contractual frameworks

There is no doubt, that as soon as the company implements effective procedures and IT management systems to minimize financial and reputational risks, national, regional and local governments would be willing to continue on working alongside this project under, new win-win conditions between the private organisation and the corresponding government.

## **5. The 'feedback' and understanding of the external environment's role in in the transformation process**

Getting to know what similar companies do, and potentially meet in specialized committee meetings to share relevant information could assist in the external feedback transformation process.

Furthermore, meeting with high and medium level government officials to obtain their opinion and share their own points of view on areas such as the implementation of new rules within taxation and customs law, or how to apply local content rules of contracts that forces companies to buy the necessary inputs (goods and services) for oil production operations, could be very useful in the feedback process.

Finally, feedback processes could also come from project staff when trying to implement a certain activity required by the above legal instruments.

Staff could find constraints in the implementation phase to comply, so if they communicate such worries on time, the operations would not be halted by government officials (Yemen, 2010). When proactive and sincere communication is promoted and exercised, trust can be developed between apparently contrasting interests.

## 6. Conclusions

For a transformation process within operations management to be successful, there should be:

- A high degree of understanding of the external and internal circumstances that currently are affecting the industry.
- The outcome of the feedback activities within the transformation process would be new effective decisions if well thought and adequately communicated could promote better organizational performance in the medium and long run.
- The evaluation of situations, strengths and weaknesses of a particular process, enabling them to take the necessary corrective measures to adjust tangible and intangible resources.
- Clear promotion of values, professional ethics and strong moral principles in dealing with the transformation of organizations and how they could affect the value chain.
- The adoption of international petroleum industry human resource best practices.

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