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***Applying a Performance Management  
System in Energy Companies: Enhance  
performance and Provide Competitive  
Advantage for the Company and its  
Customers***

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***Introduction:***

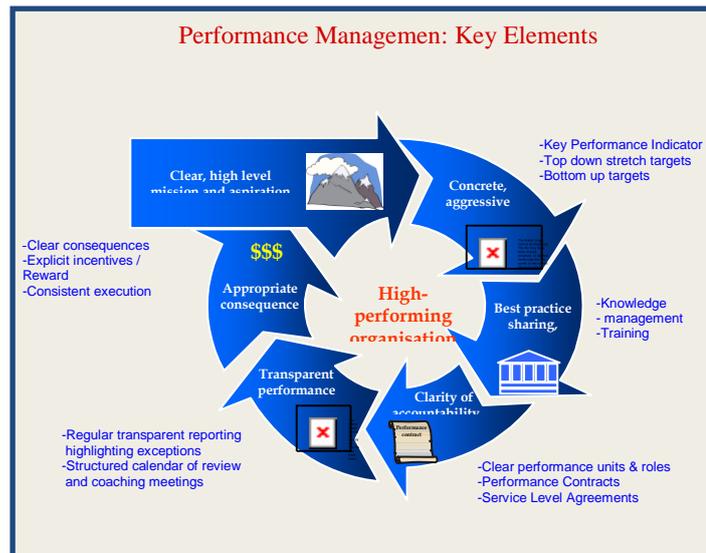
Establishing and applying a practical and robust performance management system will not only measure the effectiveness of the organization, but also will allow the senior management to set business objective, challenge the performance targets and monitor the progress towards the strategic goals.



The performance management process is a continuous activity set that starts with strategic intent, involves establishment of targets for each stage of business, measures and reports outcomes, uses feedback loops and adjust. The targets are derived from the mid-term plan process, detailed during the budget cycle, reported monthly through performance management team and reviewing them at every quarter in regularly scheduled review meetings.

***Principles of Performance Management System:***

The Performance Management Process itself could not produce performance; rather, the initiatives that generated by the performance dialogue deliver the performance improvements. Effective performance management requires an integrated focus on the following areas (Figure-1):



*Figure-1*

- i. Set clear high- level strategy and aspiration that set direction for the company.
- ii. Articulate long term strategy and aspiration into near-term measurable goals to clarify priorities. This allows follow-up achievements by Shareholders to ensure that the company is performing in line with strategy.
- iii. Providing support through coaching and best practice sharing.
- iv. Setting expectations in a performance Contract to clarify roles/responsibilities/accountability.
- v. Engaging in regular performance evaluation and feedback sessions.
- vi. Applying appropriate consequences management to make performance management process “real”. This could be a “Bonus system” for middle to top performers, coupled with a mechanism to promote good managers or move aside those who fail to perform in their current jobs.

***Structure of the Performance Management System:***

The Performance Management Process (Figure-II) is structured as outlined below:

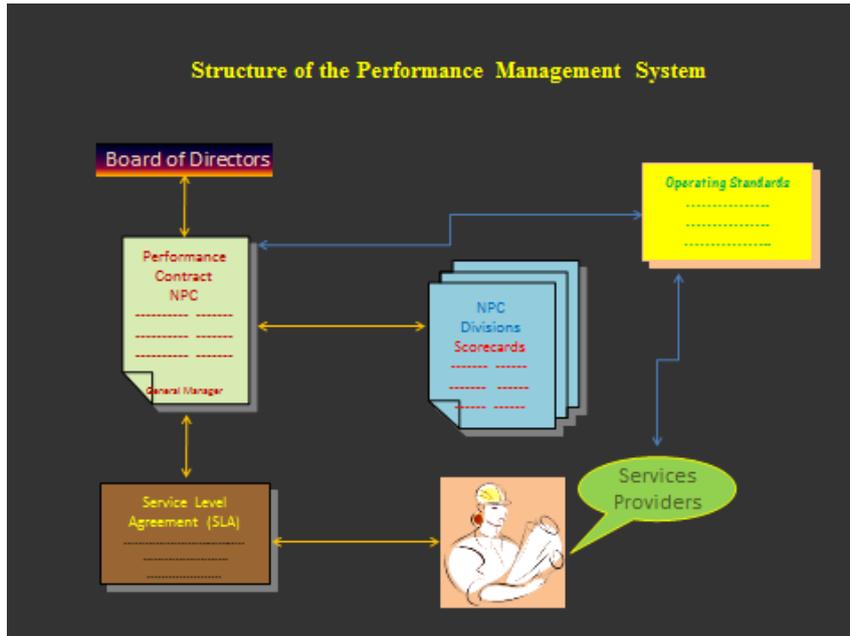


Figure-II

➤ Performance Contracts (PC):

It is a one-page contract between the Company General Manager and the Chairman of the Board. They defined the quantitative targets, highlighting the key business priorities and clarify the accountability. The PC is the end product of the target-setting process. Outstanding performance is rewarded and sustained under performance is penalized. A sample of the PC is presented in figure-III.



Figure-III

➤ Service Level Agreement (SLA):

It is an agreement between the Company and any service provider for the company. It clarifies what others need to deliver for the Company in order to meet its Performance Targets (KPIs).

➤ Divisions/Departments Scorecards:

It identifies the priority initiatives for each division and provides the senior management with the tools to measure and evaluate the performance within the company.

➤ Business Operating Standard:

These standards outline regulations that must be followed in the company business and operations. They are comprehensive and specific regularity guidelines that supplement performance contract to ensure that they drive for performance on specific dimension does not violate sound management practices.

**Key Performance Indicators (KPIs):**

A set of Key Performance Indicators (KPIs) should be developed to measure the performance against the strategic intent and business objectives for the company. As indicated in Figure-IV, the KPIs should fall into four major categories:

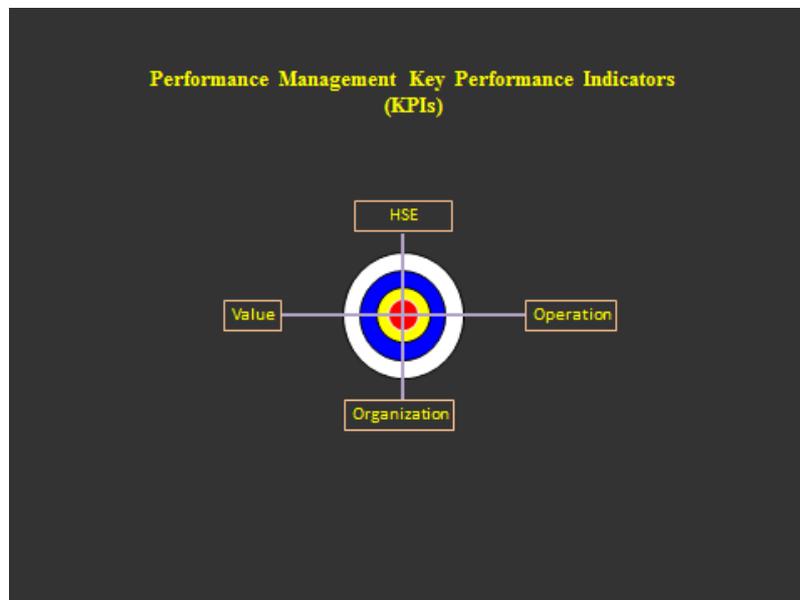


Figure-IV

➤ Health, Safety & Environment KPIs:

These KPIs track fatalities, Injury Frequency Rate, gas flaring and Emissions.

➤ Operations KPIs:

Indicate the highest-priority areas of operation such as production rate, availability, reliability, operating cost, asset integrity, etc.

➤ Value KPIs:

Measure the impact of value over time. This includes, but not limited to, Net Present Value (NPV), Capital expenditure, Projects milestones, etc.

➤ Organizations KPIs:

They Reflects the Company aspiration of becoming a higher performer while contributing to the society. These include Nationalization, Competency Management, Peoples Development and Individuals performance target setting and review.

- Each of the four domains should have an equal weight ; 25% each.
- In each category, the 25% must be appropriately allocated among the KPIs of that category.
- However, some KPIs should be a gate (Fatalities in HSE, Production rate in Operations KPIs).
- A driver tree should be developed for each KPI
- Total score will be the sum of the scores for all KPIs for the four domains..

***Performance Management: Support to other processes;***

The Performance Management System provides support to the following processes:

➤ The Planning Process:

The information provided allows the Company to define its strategic agenda.

➤ Human Resources and People Development:

The process requires that each employee to have a development plan and remain motivated throughout his/her career. Also, the combination of active learning and training programs and fact-based evaluations build capabilities. Finally, incentive systems that include bonuses and penalties cause employees to stretch themselves, thereby instilling a performance culture.

➤ Management Decision Making Process:

The available performance data and trend analyses allows for more thorough and fact-based decision making; the right decision at the right time.

➤ Communication Process:

The performance management system enhances the communication among different parties within the Company itself, with Shareholders, Government Ministries/entities and other service providers.

➤ Best Practices sharing process:

The data center at the Company promotes the best practices to be spread out and utilized by other users. The same, the wrong practices are avoided.

➤ Other Operating Processes:

These are mainly at the fields, working sites and operation plants. In this case the inspection, maintenance schedules, the assets replacement plans, the capacity utilization, remedial actions, etc., can benefit from the available information and database.

***Performance Management System Effectiveness:***

The Performance management system is proved to be a very effective tool in managing the business and promote the excellence. The Performance management Team “the owner of the business process” will be considered as a center for knowledge and information.

In addition, the availability of the information system eases the benchmarking process of the Company and compares it with the International performance standards.

Other improvements can be noticed; such as:

- Improved strategic planning process,
- More efficient use of resources,
- Push the use of new technology,
- Facilitate access to information with regard to future target setting sessions and performance review.
- Improved operations(maximize production, facilities availability, asset reliability, integrity compliance, operating cost).
- Creating and maximizing value (improved capital expenditure, project costing, reduced cost per unit, ..).

- Improving the organization management process (develop capabilities, best practice sharing, carrier development and training).

These will give the Company a better position when compared with other international oil industry companies.

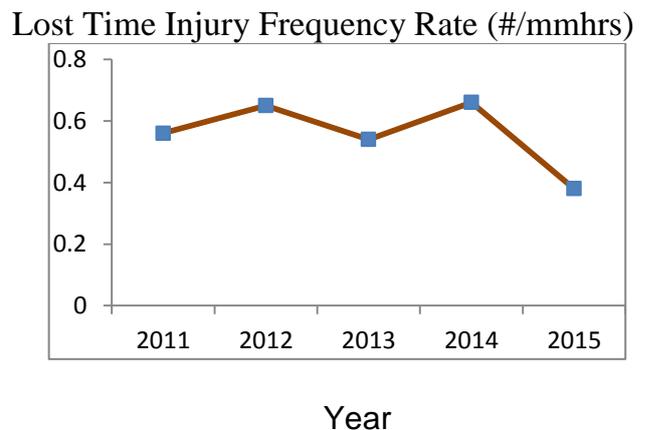
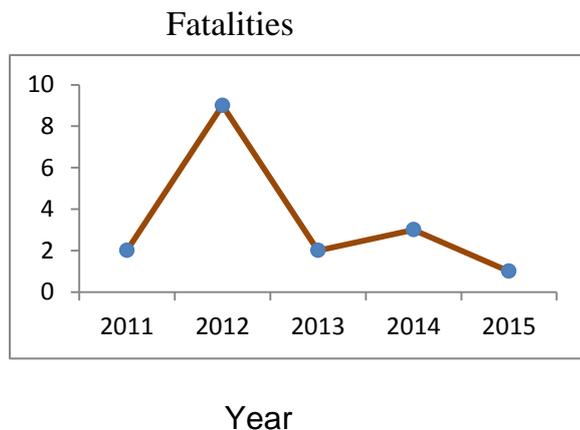
### ***Performance Management: Critical Success Factors:***

Implementing the performance management system requires a substantial changes across all company sectors. Therefore, to make the journey a success story, several important challenges must be addressed:

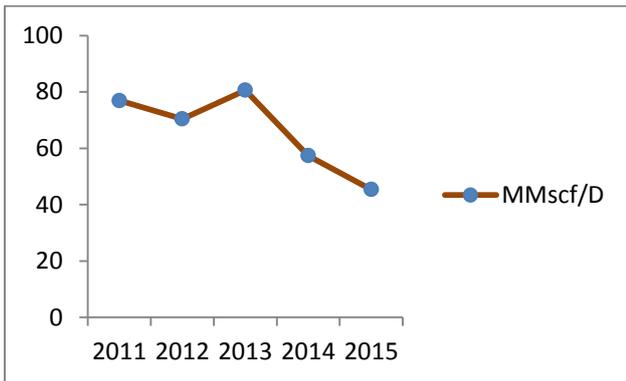
- Effective and strong executive sponsorship, showing active and visible support.
- Effectively define and articulate the strategic agenda to be able to lead and guide the performance management efforts.
- Building capacity and increase capabilities by investing in training and people development.
- Linking the performance process to a reward/penalization system.
- Benchmark the major KPIs for a challenged target setting process.
- Creating mechanism to work with all stakeholders to ensure full buy-in.
- External facilitation and executive coaching might be needed during the initial stages.
- Listen to the employees and value their feedback.

### ***Performance Management Assessment: A Case Study:***

The Performance management system has been assessed after 5years of application for an XIOLCO oil company. The results of some HSE KPIs are presented below:

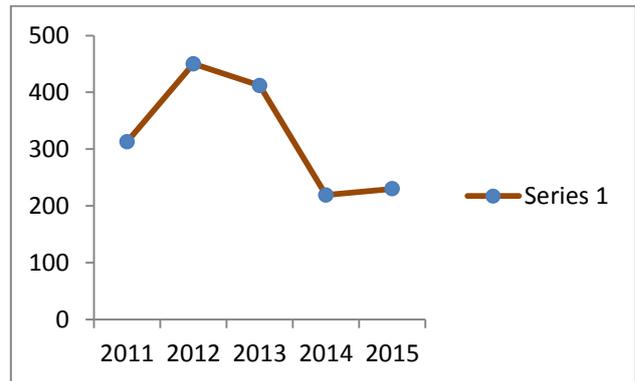


Gas Flaring (MMscf/D)



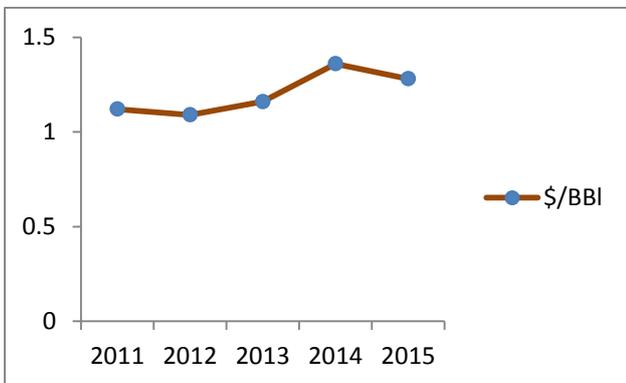
Year

Oil Spills & Discharges (BBIs/D)



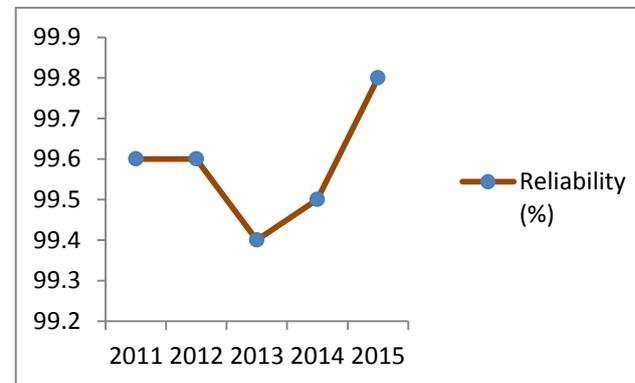
Year

Unit Cost (\$/BBI)



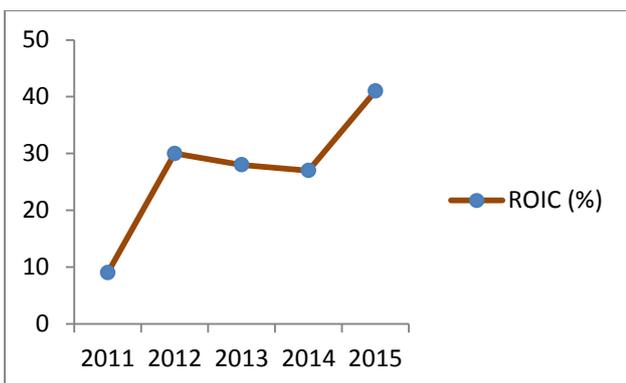
Year

Plant Reliability (%)



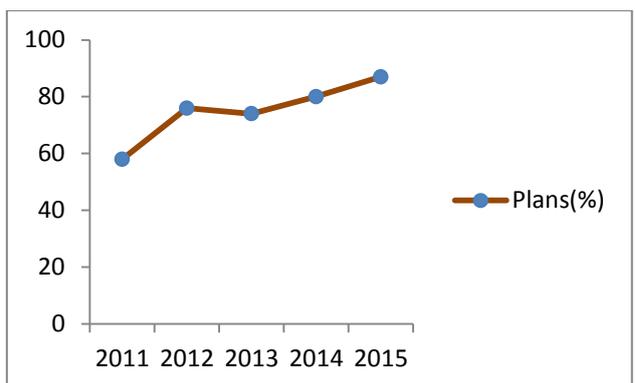
Year

Return On Invested Capital (%)



Year

Personal Development Plans (%)



Year

***Conclusions/Recommendations:***

By establishing solid, well-accepted foundation Performance Management process, with full commitment and participation from senior management, the process with the initiatives resulted from the process, would be a good tool to improve the business and promote the excellence. This was obvious in the noticed improvement in all areas of business; HSE, Operation, Value and Organization in general.

In addition, the availability of the information system eases the benchmarking process of the Company and compares it with the International performance standards.

Other improvements can be noticed; such as:

- Improved strategic planning process,
- More efficient use of resources,
- Push the use of new technology,
- Facilitate access to information with regard to future target setting sessions and performance review.

These will give the Company a better position when compared with other international oil industry companies.



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- BSc. In Petroleum Engineering from Riyadh University, Saudi Arabia
- MBA from Wollongong University, Australia
- PhD in Business Management, from USA
- More than 30 years of experience in the oil and gas industry
- Work as Long Term Strategy, Performance Management and External Relations advisor.
- Published many articles and papers in the different oil and gas aspects
- Certified Consultant Engineer in Mining and Petroleum Engineering for the JEA.
- Deputy Chairman for the 8<sup>th</sup> JMIC.
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- Work in Saudi Arabia, UAE and Jordan.
- Currently work as Oil and Gas Advisor.