Defining your company's purpose

Oil and gas Purpose-Led Transformation
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Oil and gas companies can unlock a more engaged, more competitive future through Purpose-Led Transformation.
The last two decades have been wrenching for American business. Industry after industry has been disrupted – by regulation or deregulation, by technology, by globalization, and by the natural progression of consumer demands. Yet until recently, the energy industry mostly escaped the pressures that have forced so many companies to adapt or wither away. But the rapid decline in commodity prices that began in late 2014 was a wake-up call for the oil and gas industry. There are clear signals this is not just another downturn, and that managing in an era of abundance will require a dramatic shift from the conventional, business-as-usual approach. If there was ever a time for transformation in the oil and gas business – for a new way of thinking – it is now.

Purpose establishes why

Recognizing and accepting that the industry’s market environment calls for a different strategic approach are the first steps to a transformative effort that can ignite long-lasting, positive change and drive growth and innovation. In recent years, companies across a range of industries have successfully responded to similar market challenges by identifying and converging on “purpose” – an aspirational reason for being grounded in humanity and stimulates a call to action.

At EY, we call this journey a Purpose-Led Transformation [PLT]. Purpose galvanizes and inspires the people within an organization and aligns their efforts with a shared, easy-to-understand intention. Our research shows companies that embody purpose see significant, measurable results – increased employee satisfaction and retention, improved engagement with external stakeholders, and enhanced shareholder return.

Purpose is long-term and outwardly focused. It is belief-driven, and broader than the company’s products or services – yet it resonates with the company’s DNA and values. A strong purpose codifies the company’s reason for existing; it explains why you do what you do.

Your company’s unique purpose is not a mission statement; those are designed to describe what you are trying to achieve, not who you are. And it is not an advertising tagline, which is created to sell to customers or create brand awareness. It is foundational, underpinning every single activity that occurs on behalf of the business. It answers the question, “Why do we come to work each day?”

The best purpose statements are succinct, direct and inspirational. They are honest and realistic, yet require some “stretch” to be fully realized. Most importantly, a well-conceived purpose captivates and motivates employees, who in turn bring your purpose to life in their interactions with internal and external stakeholders to drive the company’s strategic agenda.

Our experience shows the very process of identifying a meaningful purpose can help companies achieve a strategic transformation by providing a rallying point to drive change. People cannot – or will not – alter their behaviors unless they believe deep down it is worthwhile to do so, and that requires a powerful message. Purpose delivers.
Purpose in oil and gas

In light of the significant challenges the oil and gas industry faces today, EY PLT can help struggling companies identify a successful path forward. The oil and gas industry is struggling to catch up with its peers in recognizing the value purpose can deliver.

EY recently conducted a comprehensive purpose analysis of major players in the oil and gas industry, using publicly available data sets and independent research.

The goal was to determine how energy companies were defining and activating purpose internally and externally through all of their stakeholders, including employees and communities. The assessment looked at 15 companies, from supermajors and independents to oilfield services firms.

Each company was scored in seven key areas of purpose and then ranked no. 1 through no. 15. The criteria included the following:

- Sustainability
- Corporate social responsibility
- Employee engagement
- Return on capital employed
- R&D spending
- Social media engagement
- Health, safety and environmental performance

After the ranking, the companies were plotted on a graph with the Y axis representing “Purpose definition” and the X axis representing “Purpose activation.” Perhaps not surprisingly, only 1 of the 15 companies assessed had both a strongly defined purpose and dynamic activation. The majority of companies currently lack both purpose and activation.

Our assessment shows that in general, the industry does not yet recognize the vital importance of identifying and implementing an inspirational, humanistic purpose. The small number of companies that have attempted to communicate their purpose tend to put too much emphasis on results, such as profit or shareholder value. Financial success is the result of a purpose-driven organization – not the reason for it.

There are perhaps a number of different explanations for why oil and gas has been slow to adopt purpose as a meaningful solution to today’s challenges. But the most plausible one is that since the last major downturn in the 1980s, oil and gas companies have enjoyed a fairly prosperous run and as a result, executives have not seen a need. Change is imminent now.

The evidence of the industry’s need for a new strategic approach is overwhelming. Today, there is a global oversupply of crude that appears to be long-term in nature. Slower than expected economic growth, the revolution in US shale production and OPEC’s decision to continue producing at high levels have combined to create a downturn that will likely be worse than the 1980s bust, and which promises to last longer than previous slumps. The worldwide price of crude oil dropped 44% in 2014 and another 29% in 2015, and it shows no sign of gaining strength in the coming months.

There are additional signals demonstrating how 2016 is different from the 1980s. Consider the following:

- In 1985, OPEC’s worldwide market share was less than 30%. At the end of 2014, it was more than 40%.
- From 1985 to 1987, the dollar lost 40% of its value when crude prices tumbled. In 2014, the dollar rose 12%.
- In the 1980s, oil prices would spike at any hint of geopolitical unrest in oil-producing countries. Today, prices seem immune to news coming from the Middle East.
- In the 1980s, there were still a number of large, heavily populated developing countries that had yet to experience significant growth in energy demand, such as India and China. Today, demand is slowing significantly in those markets, and there are no new ones to take their place.
- When prices fell in the 1980s, high-cost production was shut in and industry consolidation was the norm. Today, the number of rigs in operation across the US has fallen by 75% since the end of 2014, but production is only down about 5% thanks to gains in productivity. More than 50 exploration and production companies have filed for bankruptcy protection since 2015, including 20 publicly held companies, and more are predicted. But many of those companies are still pumping, and a surge in M&A has yet to be seen.
Without a cut in worldwide production or an unforeseen jump in demand, crude prices are likely to stay low, possibly stabilizing around US$40 for the remainder of 2016 and deep into 2017. In fact, it could be years before prices reach US$80-US$100 a barrel again.

That means many oil and gas companies are facing difficult decisions about how best to position themselves for the future. What should their operating practices look like? How should their capital structure change? What should their portfolio strategy be?

Some companies may find themselves changing their geographic focus. Some may abandon offshore in favor of less costly onshore development. Others may decide to shift away from exploration altogether.

The good news is that purpose can be the catalyst that drives change for oil and gas companies—helping them identify their roles in the new environment and carry out that transformation successfully. With a fully defined purpose, companies will find it easier to set a broad operational agenda, with near-term and long-term initiatives; use capital strategically to balance risk and return; and align their asset base with core capabilities to achieve scale and create a competitive advantage.

By focusing the company on its reason for existence and building strategies that are derived from and support that purpose, a PLT can facilitate a sense of urgency that leads to new ideas and creative solutions.
Purpose in action

In fact, when we look at companies that have overcome challenges similar to those facing the energy industry today, we see many of them utilized purpose to refocus their thinking and strategy in a meaningful way and gain the support and buy-in of employees and other stakeholders.

The PLT begins by helping companies identify why they exist. That purpose is typically supported by a vision, mission, strategic pillars and core values. Together, these elements provide a road map that is focused and guided, and they give meaning to the company’s activities.

The best purpose-led companies are also champions of activating their purpose. This is done internally by leaders who believe in the strength of their purpose, and whose daily behavior and decisions reflect the company’s agreed-upon purpose and values.

Over time, that leadership behavior creates a values-based culture which, along with positive interactions and experiences, builds employee trust and engagement.

Finally, inspired and empowered employees drive positive interactions and experiences with stakeholders, which increases their loyalty to the company and leads to future business opportunities.

The purpose-led company, then, creates a self-perpetuating cycle in which “living the purpose” leads to trusting and engaged employees, which in turn creates sustainable profits and a strong reputation among all stakeholders.

Why purpose works

The strength of purpose is rooted in biology. The human brain consists of two main systems – the limbic system and the neocortex.
EY, Simon Sinek team up with purpose

EY and well-known strategist and author Simon Sinek have developed a purpose-driven platform called “The Why Effect,” named after Sinek’s best-seller, Start With Why: How Great Leaders Inspire Everyone to Take Action.

EY and Sinek are offering The Why Effect to help companies reimagine how they operate while still generating the revenues and margins needed to reinvest in strategic growth. The platform is a key element in EY Purpose-Led Transformation service and is designed to help organizations create improved operations, higher employee engagement, greater customer loyalty and a stronger, more effective culture.

“We are excited to team with Simon because both he and EY understand that disruptive forces are causing organizations to reassess their strategies, priorities and even why they exist,” said Bob Patton, EY Americas Vice Chair of Advisory Services. “Together, we can inspire and build a better working world by helping companies successfully transform, innovate and grow.”

Additionally, Sinek has become a part of the EY Beacon Institute’s global community of C-suite executives, investors, entrepreneurs and academics focused on the goal of advancing transformation of the working world.

Sinek’s presentation on “Why” is one of the most-watched videos in TED.com history. To learn more, go to ted.com/talks/simon_sinek_how_great_leaders_inspire_action.

Oil and gas companies: transforming for the long term

Smart oil and gas companies recognize meeting today’s challenging market conditions requires a new, more holistic approach that can deliver value across the breadth of their organization. Purpose is the ideal catalyst for transformational and sustainable change, giving companies the emotional strength and foresight needed to align their operating practices, capital structure and portfolio strategy to deliver success.

EY has extensive experience in guiding companies through the process of identifying and defining a meaningful purpose, and activating that purpose through our PLT service. We even count ourselves amongst the success group, since we initiated a new purpose in 2013 of building a better working world and we continue on this journey today.

Are you concerned about the current and long-term oil and gas environment, and uncertain about your company’s place in it, if you’ll even survive? PLT is a proactive approach to organizational stability that can help companies discover their organization’s unique purpose and create a new, more engaged, more competitive tomorrow.

The limbic system is responsible for generating and storing our feelings, including trust, loyalty, engagement and what we commonly call our “gut,” or our instincts. The neocortex system is responsible for facts, figures and more rational thought. But while it allows us to study and analyze, it does not drive behavior; the limbic system does.

Purpose resides in the limbic system. It gives meaning to our jobs and enables us to connect emotionally to the company and to one another. And since the limbic system drives most decision-making – despite the analytics that take place in the neocortex – purpose works to guide us in our actions, which leads to a more engaged workforce and a more successful company.

Interestingly, most executives understand all this intuitively. In fact, the vast majority of leaders say purpose is important. Yet they admit they are uncertain how to define or activate it. In a recent survey commissioned by the EY Beacon Institute and conducted by Harvard Business Review Analytic Services, 87% of executives said that companies perform better over time if their purpose goes beyond profits; 84% said purpose can affect an organization’s ability to transform.

Yet fewer than half said their company currently has a strong purpose, and even fewer admit they operate in a purpose-driven manner – despite the fact that a purpose-led transformation addresses every critical issue facing the C-suite today.

What these findings tell us is there is a distinct first-mover advantage for companies willing to invest in purpose – especially in the energy business.
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How EY’s Global Oil & Gas Sector can help your business
The oil and gas sector is constantly changing. Increasingly uncertain energy policies, geopolitical complexities, cost management and climate change all present significant challenges. EY’s Global Oil & Gas Sector supports a global network of more than 10,000 oil and gas professionals with extensive experience in providing assurance, tax, transaction and advisory services across the upstream, midstream, downstream and oil field subsectors. The Sector team works to anticipate market trends, execute the mobility of our global resources and articulate points of view on relevant sector issues. With our deep sector focus, we can help your organization drive down costs and compete more effectively.

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