A winning approach goes well beyond benchmarks to develop the forums and decision-making processes that turn metrics and insights into the right discussions, decisions and actions.

By Riccardo Bertocco and John McCreery
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As part of Bain’s ongoing series on operational excellence in the oil and gas industry, this brief highlights our current thinking on performance management. Other briefs in this series have examined integrated planning, operational excellence management systems and the imperative for operational excellence.

In the world of elite sports, playing for a high-performing team can be an uncomfortable experience at times. With expectations set high, each missed basket, each missed open goal or every dropped pass brings groans from other players and spectators alike. Even when you are ahead of the pack, missed opportunities are disappointing. Leading oil and gas companies are not FC Barcelona or the New York Yankees, but our experience working with many of them suggests they view their own performance in much the same way. We see well-respected, world-class organizations where the sharp edge of performance is occasionally lacking. This typically means the organization is not meeting its own performance goals—which often results from inadequately managing performance. Sometimes this occurs because senior executives have not defined success clearly, or they have focused excessively on identifying benchmarks while avoiding more critical discussions on how they should use metrics to make better decisions about how they run the business.

To raise their game, oil and gas executives may need to revisit the way they manage performance. Leading players take an approach that goes well beyond benchmarks to develop the right forums and decision-making processes that will turn metrics and insights into the right discussions, decisions and actions. They set up their reporting systems to inform strategic and operational decisions. They integrate performance management with other cross-functional processes that guide the business, such as risk management and capability development. Connecting performance to incentives ensures accountability. Finally, they find ways to make their programs stick, including linking performance management with their annual planning cycles and developing dashboards that allow managers to keep an eye on metrics—which, while not the whole solution, continue to inform their daily and longer-term decisions.

**Measure to improve decisions**

Better performance management begins with a more focused approach to measurement and reporting systems. Oil and gas companies are flooded with data, and the flow increases daily as more sensors come online and teams devise more ways to collect and analyze data. This rising tide of data brings the risk of measuring for the sake of measurement. Executives need to focus their analytic resources and reporting systems on the information that matters most. They can start with three straightforward and interconnected questions:

- How do we measure our performance?
- What decisions do we need to get right to succeed?
- How can metrics help improve our decisions?

Answering the first question helps clarify the strategic goals of the business: What do we do, and how do we know when we are winning? Discussions about measuring performance lead to discussions about improving performance, and so this discussion is as much about understanding the requirements of success as it is about measuring success.

Second, assessing the decision-making process is the start of understanding how an organization evaluates what it knows and how it acts on that information to achieve its goals and create value. This process should explore the fact base underlying decisions as well as the accountability of those making them. Leading organizations assign clear decision rights, partly to ensure accountability but also to streamline the decision-making process. At Bain & Company, we believe good decisions stem from four variables: an organization’s ability to make the right decision, to make it quickly, to follow up and execute, and to make the required effort to run the process.

The third question asks companies to decide which metrics are the most important to track and monitor. Good decisions require accurate and pertinent data that ties closely to the organization’s strategic priorities. Key performance indicators (KPIs) should give a balanced view of the business, covering the most important categories that indicate the health and performance of the business (see Figure 1). In the oil and gas industry,
Operational excellence: Managing performance in the oil and gas industry

Because of differences like these, the real value of benchmarks in this industry lies in enabling organizations to identify the areas where they should invest to improve their operations and differentiate themselves, rather than as indicators of performance compared with competitors. The key to improving performance is not just about comparisons with other companies, but developing an action-oriented approach that links the insights gained from metrics to good decision making and accountability.

High-level cost benchmarks on corporate support services, such as finance and human resources, can help companies keep costs down, primarily by regarding them as indicators of best practice across the industry rather than as absolute numbers. In safety, where there is no room for variance, benchmarks can help organizations recognize gaps in their own performance vs. world-class standards.

Some oil and gas executives have told us that benchmarking at a high level across a diverse range of assets is somewhat useless and, in some cases, dangerously misleading. Companies can try to correct for differences but will have to spend much effort understanding the unique factors associated with individual assets. Worse still, some companies place excessive confidence on...
That is only one example of how the misalignment between performance management and accountabilities can generate the wrong behaviors. Tying compensation to performance is one of the most effective ways to ensure alignment. As performance management systems are put in place, managers can redefine or reaffirm roles, deciding who is accountable for performance across functions and regions. Performance metrics should be one source of information for periodic reviews and planning discussions, and they are the key to designing well-aligned incentive systems.

Decision making is a key driver of performance, and executives can assess their skills with a few questions:

- How quickly can we make decisions?
- How often do we make wrong decisions?
- How well do we implement the outcome of a decision?
- How painful is the decision-making process?

A performance management system must do more than provide the right information in the right decision-making forums. It must also have an incentive scheme that fosters the correct behaviors and enables effective decision making (see the diagnostic checklist on next page). (For more about this, see the Bain Brief “What ‘good’ looks like: Creating an operational excellence management system.”)

Performance management is not easy to get right. Organizations have perfected the art of overengineering and overcomplicating the metrics in use. Some blindly follow benchmarks and lose sight of what good performance looks like. Others let their organizational structure create silos and excuses, frustrating CEOs and executive leaders who soon see routine decisions being escalated to their level.

For more on Bain’s Operational Excellence program, see these related Bain Briefs:

- “Operational excellence: The imperative for oil and gas companies”
- “Integrated planning: The key to upstream operational excellence”
- “What ‘good’ looks like: Creating an operational excellence management system”
In many ways, oil and gas is a simple business. Bain’s experience designing and implementing performance management systems for oil and gas companies suggests that much of the gain can come from focusing on a few vital metrics. These metrics can help produce consistent, high-quality forums for strategic discussions and decision making, which in turn lead to decisive action. Accountabilities for these actions must also be clear. Agreeing on the required behaviors—and the consequences of failing to follow them—is the glue that holds together successful performance management.

A diagnostic checklist can help executives assess the need for a performance management tune-up

<table>
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<th>Metric set</th>
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<tr>
<td>- Metric proliferation and lack of focus on what really matters</td>
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<td>- Limited understanding by management of the root cause of performance drivers</td>
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<td>- Limited use of leading indicators in dashboards or scorecards</td>
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<tr>
<td>- Metric set focused on results or outcomes, even at lower levels of the company</td>
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<tr>
<th>Target setting</th>
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<tr>
<td>- Targets not obtainable and not grounded in reality</td>
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<tr>
<td>- Targets not tied to plan (annual or longer-term)</td>
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<tr>
<td>- Targets set without consideration for “what is possible” (using internal and external practices)</td>
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<tr>
<td>- Personal incentives not tied to performance against operational targets</td>
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<tr>
<td>- Targets only set at the highest levels in the company and mostly for output/results-oriented metrics</td>
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<th>Processes, roles and responsibilities</th>
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<tr>
<td>- Performance management only occurs within functions or geographies/assets</td>
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<tr>
<td>- Poorly structured or ineffective management of production, new well delivery and HSSE</td>
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<tr>
<td>- Too many performance management meetings, without the right people involved</td>
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<td>- Unclear roles and responsibilities for data collection, data validation and report generation</td>
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<td>- Inconsistent follow-through on action items from performance reviews</td>
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<td>- Performance management “calendar” is inefficient and not tied to important corporate milestones</td>
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<td>- No single point of accountability for each metric (responsible for integrity and analysis/insights)</td>
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<th>Systems and tools</th>
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<tr>
<td>- Clear and easy-to-use dashboards not available to management</td>
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<td>- Right data is not available at the right times</td>
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<td>- Slow and inefficient system to get data from the front line to senior management</td>
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<td>- Inability to “double click” and get a better understanding of root-cause drivers</td>
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<td>- No “one version of the truth”; multiple versions of the same metrics emerge from different systems</td>
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<th>Behaviors</th>
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<td>- Timely feedback on performance not provided to accountable parties</td>
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<td>- Ineffective consequences: positive reinforcement lacking for good performance; or corrective consequences for either missing targets or not following through on action items from performance reviews</td>
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<tr>
<td>- Individuals do not understand how their behaviors contribute to outcomes</td>
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