

EXECUTIVE LEADERSHIP

What does it mean to run a large oil and gas company?

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Oilfield International Sept 2005

Objectives

- **1) Understand the responsibilities, personal risks and minimum competencies of being a director**
- **2) Understand the skills needed to be a top executive leader**
- **3) Anything unique/special to the Oil and Gas Industry?**
- **4) Anything unique/special to Petrotrin?**

TIMINGS

<u>Time</u>	<u>Title</u>	<u>Description</u>	<u>Slides</u>	<u>Secs/Slide</u>
13.30-13.50	Directorship	Understand the responsibilities, personal risks and minimum competencies of being a director	10	120
13.50-14.20	Leadership	Understand the skills needed to be a top executive leader	14	129
14.20-14.30	Anything unique/special to the Oil and Gas Industry? Anything unique/special to Petrotrin?		3	200
			27	

Debate is more important than getting through the slides –
I will always discuss any material at other times.

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A Director's Responsibilities (compared with a senior manager's)

- A *Director's* substantive responsibility is to help the Board discharge its mandate under law to **supervise or direct the management** of the company's business
 - I.e. **the director's role is not to run the company**, but the buck stops with him/her!
 - [But individuals who are directors may incidentally have executive ("company running") roles]
- **A Director is Different in Law**
 - A Director is a "Fiduciary"
 - I.e.: a person entrusted with assets owned by another party (beneficiary), and responsible for investing the assets until they are turned over to the beneficiary
 - Must also respect the rights *under law* of other constituents, such as employees, creditors, customers when **(but only when)** these **legal** rights are "in play".
 - **Otherwise, all decisions must be in the best interests of the owner (beneficiary)**
 - I.e. in law, the interests of other stakeholders shall only be taken into account if:
 - their legal interests are "in play", and/or
 - to do so is in the best interests of the owners (!)
 - **(So much for modern "inclusive", socialist principles!)**
- **Two Vital Concepts**
 - "Fiduciary Duty"
 - Directors' protection under "The Business Judgement Rule".

A Director's Fiduciary Duties

- The Fiduciary Duties (ref Sarbanes Oxley and subsequent USA case law) are:
 - A Duty of Loyalty
 - Good intentions not enough, must be “affirmative” and “conscientious”
 - Disney, Ovitz, \$140m severance, “Mushroom Board (*sit in dark and feed on what is given!*)”
 - A Duty of Care
 - “Critical Eye”, “Be Informed”, “Common Sense”, “Temporal Urgency”, “No license to procrastinate”
 - Procrastination can be evidence of “lack of care: Abbot Labs, unsafe drug, directors sustained and systemic failure to exercise oversight, FDA fines & losses = \$100m.s
 - Independence from management of company
 - Director shall not rely exclusively **or even primarily** on representations or assurances from the management of the company
 - » Oracle Corp: directors’ special committee into insider trading included members with links through Stanford University with those investigated
 - A Duty of Good Faith
 - Anyway an essential element of proper director conduct
 - A Duty of Disclosure
 - Both Good faith and Disclosure are probably subsumed into Loyalty and Care. Await case law!

A Director's Minimum Knowledge & Competencies To Discharge Fiduciary Duty (Irrespective of Any Executive Duties)

- Obviously business specific but Courts might reasonably expect a Director's decision-making to be informed by:
 - Fiduciary Duties after Sarbanes Oxley
 - Knowledge of Shareholders' Requirements?

 - Cash Flow Analysis, NPV, IRR
 - Interpretation of P&L and Balance Sheet
 - Taxation Reporting and Company Audit Principles

 - Stock Exchange Disclosure (& Non-Disclosure) Rules (if listed)
 - Insider trading regulations
 - Uncompetitive Practices Principles; e.g.: price fixing; collusion
 - Anti-Money-Laundering Principles

 - Data Protection Principles
 - Basic HSE Obligations pertinent to business
 - Insurance Obligations
 - Employees' Rights and Responsibilities; Anti-Discrimination Principles
 - Key elements of PESTLE pertinent to business

Directors' Protection

- The Business Judgement Rule
 - Establishes a **rebuttable presumption** that a director fulfilled his/her fiduciary duties in reaching a decision, and:
 - The Court shall respect that business decision irrespective of its view of its correctness
 - I.e. director is absolved of personal liability for a wrong decision if loyalty and care were **properly** exercised,
 - with the burden of proof to the contrary resting with the Plaintiff
- BUT..

Directors' Protection Weakens....

- BUT...
 - If the director's independence were compromised (e.g. some interest in both sides of a transaction, **even a less-than-arms-length relationships with material parties!**)
 - **The burden of proof of his/her compliance with fiduciary duties shifts to the director.**
 - If the director fails to convince, the Court may then decide on the correctness of his/her business decision and **quantify his/her personal liability for any losses to the Plaintiff!**
 - The Courts test the adequate discharge of fiduciary duties by whether the director:
 - Made an **affirmative** decision to act or to refrain from acting, rather than defaulting to a result by not making a decision (Mushroom analogy again!)
 - Acted in good faith
 - Acted in the honest belief that the action was in the best interests of the company
 - Remained informed of all material facts, and proceeded with care and circumspection
 - Had a rational business purpose for his/her decision
 - **(Hence) the need for the competencies listed previously, especially financial competence!**

Directors' Protection Weakens Further!

- Protection Rule definitely applies for “Gross Negligence” claims for “routine, but not unimportant, decisions”
- BUT Delaware Court in 2003 implicitly over-ruled Protection Rule for mergers and acquisitions!
 - It considered the **substantive merits of the decision**, in parallel with the test of fiduciary standard!
 - (Not in accordance with Sarbanes-Oxley, and may yet be overturned by Higher Court)
- CONCLUSION:
 - Nothing to fear unless
 - The business goes pear-shaped
 - Someone takes you to court?!

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Executive Leadership Competencies

- Leadership
 - *"The very essence of leadership is that you have to have a vision. It's got to be a vision you articulate clearly and forcefully on every occasion." - Theodore Hesburgh, President of the University of Notre Dame*
- Plus, Plus
- Multi-Disciplined (Marketing + Finance + HR etc)
 - "Helicopter Vision"
- And Discipline Specific (Marketing specialist etc)
- Media skills: TV, Radio, Reporters etc

The “Road to Great Leadership”

- **Challenge the process**
 - Find a process that you believe needs to be improved the most
- **Inspire a shared vision**
 - Share you vision in words that can be understood by your followers
- **Enable others to act**
 - Give your followers the tools and methods to solve the problem

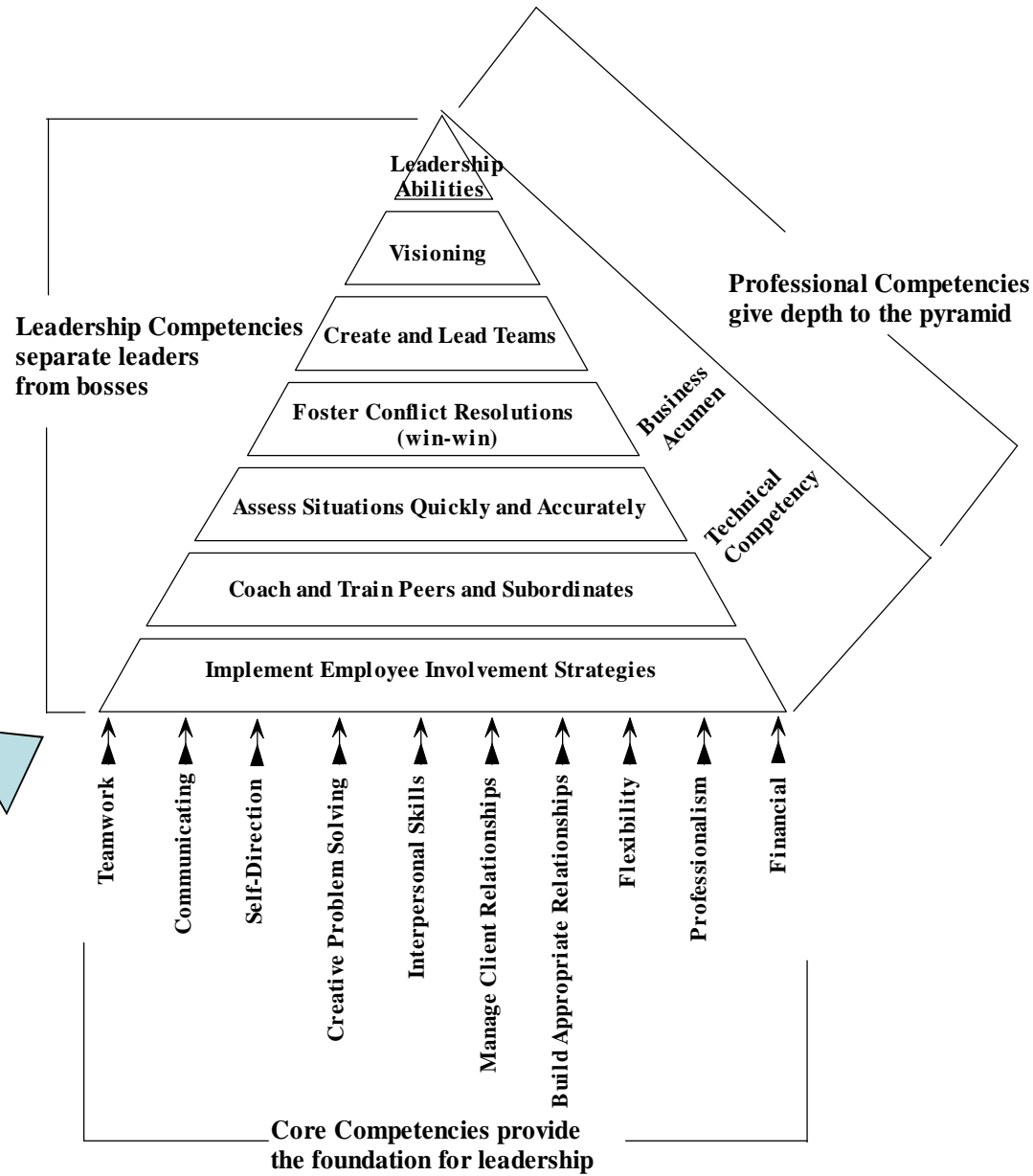
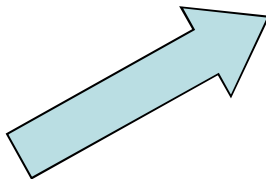
- **Model the way**
 - When the process gets tough, get your hands dirty.
 - A boss tells others what to do...a leader shows it can be done
- **Encourage the heart**
 - Share the glory with your followers' heart, keep the pains in your heart

A bit too “inspiring” perhaps, but an informative checklist..

The Leadership Pyramid

- **Leadership Competencies**
 - “separates leaders from bosses”
- **Core Competencies**
 - foundation
- **Professional Competencies**
 - depth

**PhD
Thesis?**



Pyramid of Leadership

Source: "Leadership", 2001, Donald Clark

Pyramid: *Leadership* Competencies

- **Leadership abilities**
 - Displays attributes that make people glad to follow.
 - Provides a feeling of trust.
 - Builds morale and “rallies the troops” when the going gets tough.
- **Visioning**
 - Creates goals (visions).
 - Gains commitment by influencing team to set objectives and buy in on the process.
 - Reinforces change by embracing it.
- **Create and Lead Teams**
 - Establishes a spirit of cooperation and cohesion for achieving goals.
- **Foster Conflict Resolutions (win-win)**
 - Effectively handles disagreements and conflicts.
 - Settles disputes by solving the problems, without offending egos.

Pyramid: *Leadership* Competencies

- **Assess Situations Quickly and Accurately**
 - Takes charge when the situation demands it.
 - Make the right things happen on time.
- **Coach and Train Peers and Subordinates**
 - Recognizes that learning happens at every opportunity (treats mistakes as a learning event).
 - Provides performance feedback, coaching, and career development to teams and individuals to maximize their probability of success.
- **Implement Employee Involvement Strategies**
 - Develops ownership by bringing employees in on the decision making and planning process.
 - Provides the means to enable employee success, while maintaining the well being of the organisation.
 - Develops processes to engage employees in achieving the objectives of the organisation.
 - Empower employees by giving them the authority to get things accomplished in the most efficient and timely manner.

Leadership and Employee Satisfaction

- Trust and confidence in leaders =
 - most reliable predictors of employee satisfaction (Hay)
- Winning organisational trust and confidence =
 - Helping employees understand:
 - company's overall business strategy.
 - how they contribute to achieving key business objectives.
 - Sharing information with employees on how:
 - company is doing
 - employee's own division is doing - relative to strategic business objectives.

Politics, Leadership & Employee Satisfaction

- **Most Employees:**
 - The more political the organisation, the lower the employee satisfaction and effectiveness
 - feeling powerless on a continuous basis

- **Politically Astute Employees** - view things differently:
 - Fixing responsibility
 - Developing relationships
 - Political Minded
 - Delegating authority
 - Documenting decisions
 - Encouraging innovation
 - Teamwork
 - Planning ahead

- The Leader is Responsible for the Culture and Politics of the Organisation
 - Your choice!!

Four factors of leadership

- **Leader (know thyself!)**
 - Intellectual understanding *and* emotional recognition and acceptance of:
 - who you are, what you know, and what you can do.
- **Communication**
 - lead through two-way communication.
- **Situational Leadership (see next slides)**
 - All situations are different
 - What works in one leadership situation may not work in another.
- **Follower (see next slides)**
 - Different people require different styles of leadership

Situational Leadership Styles (all have their place)

- **Authoritarian** (autocratic)
 - Tell employees what and how task is to be done
 - No employee inputs
- **Participative** (democratic)
 - Include one or more employees in determining what to do and how to do it.
 - Leader maintains the final decision-making authority.
- **Delegative** (free-reign)
 - Employee(s) make the decision
 - But Leader is still (as always) **responsible** for the decisions made.

Which Style for Which Situation?

- **Leader needs to assess the followers, the situation, and his/her own competencies and time constraints in the situation**
- **Authoritarian**
 - new employee learning new job
 - leader knows job and is good coach
 - employee is motivated
 - situation: new environment for the employee
- **Participative**
 - team of workers who know their job.
 - leader knows the problem well, but he wants to create a team where the employees take ownership of the project.
 - employees want to become part of the team.
 - the situation allows time.
- **Delegative**
 - worker who knows job better than leader
 - employee needs to take ownership of job.
- **All three at once (!)**
 - Telling your employees that a procedure is not working correctly and a new one must be established (authoritarian)
 - Asking for their ideas and input on creating a new procedure (participative)
 - Delegating tasks in order to implement the new procedure (delegative).

Power vs Leadership

- **Power versus Leadership**
 - Power uses intimidation rather than goal compatibility
 - Focuses on Tactics for gaining compliance
 - Leadership requires at least some goal congruence

- **The Five Points of Power**
 - **Coercive Power** –based on *Fear*
 - **Reward Power** – *Compliance* achieved based on the ability to distribute rewards that others view as valuable

 - **Legitimate Power** –a result of a person’s position in the formal hierarchy of an organisation
 - **Expert Power** – Influence based on special skills or knowledge
 - **Referent Power** – Influence based on possession by an individual or desirable resources or personal traits

Listed Companies: Additional Competencies Required

- Public Relations – get it wrong and your share price goes down (= takeover, in extremis)
 - Shareholders
 - Analysts
 - Pension Fund Salesman
 - Reporters
 - Environmentalists and other Pressure Groups
- Balancing Short-Termism of Stock Market with Strategic Investments
 - Share price influenced by y-o-y quarterly and annual growth in eps and dps – underlying formulaic relationship
 - Market Short-Termism affects timings and types of investments, especially when the size of a single investment is material to the company net worth

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Anything Unique/Special to the Oil and Gas Industry?

- **Strategic Importance and Value to Country = Higher Emphasis on:**
 - (Inter)-national standing of directors
 - Political and influencing skills with governments, international institutions, the Press and Media
 - Negotiations and Deal-Making and Lobbying
 - Breadth of Issues to be weighed during decision-making
- **High Capital Spend = Higher Emphasis on:**
 - Project Management skills for large projects
 - Financing Skills (Equity, Mezzanine, Senior Debt)
 - Financial Appraisal Skills
 - Joint Venture Agreements to:
 - Share risk with other investors and Multiply Opportunities
 - Align contractor's objectives by sharing risk & reward
- **Zero influence on (highly volatile) crude pricing & very limited on product pricing = Higher Emphasis on:**
 - Risk Management, Portfolio Management, Hedging Skills
 - Ability (and appetite) of Directors to “Do Bold Things”
 - Global and Regional Political Antennae

Anything Unique/Special to Petrotrin?

- **Have Political Masters = Higher Emphasis on:**
 - Skilled and Comfortable with Politicians, Lobbyists, The Press and Media
 - Deep understanding of the politics of the major parties and how they might affect Petrotrin
 - Foreseeing the changes in political temperature
 - Contingency planning for rapid changes on political direction and mood
 - Rapid reaction force to prepare proposals and counter-proposals
- **Small fish in large refinery pond = Higher Emphasis on**
 - Negotiating alliances with other Caribbean operators
 - Marketing Skills
 - Finding and defending a niche that makes profits (new product development)
 - Controlling / phasing-out sale of loss-making refinery products
 - Bundling services with products
- **Operate in Highly Unionised Culture = Higher Emphasis on**
 - Skilled and Comfortable with Union Leaders and The Press and Media
 - Negotiations and Brinkmanship
 - Employment Law