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Do Companies Have Personalities and Why Does It Matter?

Interview with Anthony Paul

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Anthony Paul *is an energy and strategy advisor, currently supporting countries new to extractives industries. In his 40 years in petroleum and mining, he has held technical, commercial, management and leadership roles, spanning the entire petroleum exploration and production value chain in Government, State owned and Multinational companies. He draws upon the petroleum industry's risk management approach to design and support the implementation of regulatory and institutional frameworks for good governance, capacity development, local content and value-addition. He has supported governments in the Caribbean, Africa, South America, the Middle East and South and Central Asia with strategies, policies, legislation, regulations, institutional development and operating systems and procedures.*

Tony, in your view how do companies' personalities express themselves?

I would say that first it is through the companies' strategies and how the country fits into that. As a government you need to understand what type of company it is and its strategy: Is it a small company, is it a major? What are they after when they come to your country? Is the company coming to explore and flip the license? Are they coming as investors, to be an operator or to bring technical and operational know-how? Are they well financed or speculators? How do they view your assets and how important are you in their portfolio? Where are you situated in their value chain?

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These considerations can help you, as a government, to determine your leverage in negotiations, informing what and how you might successfully push during negotiations, and anticipate the behavior of the company in engaging with the government throughout the life of the project and in different outcome scenarios (level of success, investment requirements, etc.).

The second is through the personality of the main country representative (typically a country manager), who is the main interface with a country. As the project matures, roles, personnel and personality change to suit the project's circumstances.

Could you explain how this company's behavior evolves during the life of the project and what it means for governments?

Indeed, companies' roles and attitudes change over time.

During the exploration phase, the country manager is generally a geo-scientist whose mission is both to make a commercial discovery and to build a relationship with the government. Because of the high uncertainty of this phase, there are built-in contingencies in the budget. In order to build a relationship with the government, the country manager is generally amenable to draw on this budget to conduct activities for the countries, such as training programs. As there are risks and uncertainties that require on-the spot decision making and approvals for program change, there needs to be very good working relationships with regulators and partners.

During the development phase, the country manager might be replaced by a seasoned engineer/project manager who is responsible for both overseeing infrastructure development and also continuing building the relationships. During this phase, companies also have significant budgets that might be dedicated for local content and Company Social Responsibility. Given that her/his main objective is to develop the project on time and within budget, the country manager needs to be a skillful negotiator, relationship manager and communicator.

During the production phase, the engineer will be replaced by a commercial type, perhaps a financial or accounting executive, as country manager whose main mission is to maximize profits by increasing revenues and reducing costs. His flexibility for allocating money to activities benefiting the country is considerably reduced and his goal is to ensure that the contractual obligations are complied with.

While the personnel is changing on the companies' sides, the personnel on the government's side remains the same. Although, the type of government personnel the company will interact with throughout the life of the project will change: first the ministers and senior technocrats, then during operations, the more specialist technical staff. Generally, the senior technical staff will be well aware of how the personnel transitions at company level, but most of the government will not really understand this dynamic. For instance, government officials tend to think that a country manager's word is his company's word. So, they expect some consistency in behavior, although new managers often want to cut their own path.

Moreover, during the relationship building phases, country managers may make promises with handshakes that may be of no consequence if governments do not put it in writing. Often, governments buy into the mantra of "let's keep things flexible, we can always work things out." Government officials do not generally have the same mindset as company personnel for which it is clear that, unless something is in law or

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contract, it is not a commitment. Those promises made during the exploratory phase should be made into a written commitment to be included in the development or operating plan if they are to be followed by actions. This is all the more important when companies change personality as personnel changes and when l companies' institutional memories are weak.

From your experience in Trinidad and Tobago with the Exxon project how did this dynamic unfold?

At the very beginning of this project, back in the 1980s, during the exploration phase, Exxon had this particular geologist-country-manager who set the tone and took the approach of "we are here as guests of the government and people of Trinidad and Tobago. Whatever information the government wants, the government gets." This was transformative for the Government, because before that, the Government would have had to fight with companies to receive certain information in a timely manner, even if the law or contract provided for it. This positive relationship did not only enable a lot of knowledge transfer with the national oil company but also helped the company down the road. Indeed, even when the country manager changed, the government kept looking at the company favorably. This helped Exxon very much to avoid a hefty penalty of $50 million when they realized that they did not want to uphold their commitment of drilling two wells, anticipating they would be dry holes. The Government had not changed as the companies' staff did, it remembered the benevolent attitude of the first country manager and showed itself open to renegotiate and reduce the penalty. However, it is worth noting that this renegotiation decision was made at the highest political level, with limited inputs from the technical or commercial experts.

In general, to prevent undue influence and corruption, there should be governance mechanisms for deciding whether to grant concessions and the level of such. The big danger posed to countries by good company relationship managers is that they know the weak point in the government decision chain and how to influence them. Without accountability throughout the decision chain, it opens a country up to corruption and poor governance. Local country managers are often effective at disguising themselves as "one of us," when in truth they are very strong professionals with the single aim of enriching their employer and themselves.

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What is your best advice to a government that wants to avoid being swayed by a strong company's personality?

Such a company is typically a multinational with well-defined economic and strategic drivers. Each has priorities and ways of working that might be slightly different. ExxonMobil, for instance, is the company that invented stabilization, and it always pushes for such a clause, based on their economic models which are somewhat unique to them. Governments might resist being unduly influenced by fixing fiscal terms in law and not allowing Ministers of negotiating terms to change the terms, or to do so only under prescribed conditions in a transparent manner. My advice is always as follows: To avoid being pressured differently by companies on certain provisions contingent on their personalities, always come to the negotiation with a model contract and variables set in a tolerable range and stick to it. Your models should honor your intent, laws and contracts. Do not work on the basis of the companies' models.

In addition, an effective tactic to get the most of the deposit and to prevent optimization of its exploitation from being subject to one company's business strategy is to require joint ventures (JV). For instance, in the 1990's, Trinidad put a bid out for an oil block onshore (ie: the project that we talked about just above). Its geology was very attractive; many majors bade, and Exxon won it. Trinidad, however, imposed Total and Chevron to partner with Exxon while keeping itself as the operator. It was beneficial to the country as it enabled technical competition and a variety of views and approaches between partners, and it yielded the best exploration methods. JVs also generally enable governments to put in place an additional layer of control and audit, as each party keeps an eye on the operator. For cost allocation purposes a JV will always do internal audits on each company's invoices before invoices are submitted to the government; whereas, when there is no JV, the invoice will go straight to the government which often has weaker auditing capacities. Bear in mind that multinational companies make deals across assets and borders. So, the government may not always have a line of sight of value transfer. A National Oil Company that is a commercial partner in a project, sits in the operating committees of these JVs and therefore provides an extra layer of protection.

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