



## Management strategies for avoiding blowouts

***Shaving thousands of dollars off expenses may look smart to an oil and gas operator or contractor, right up until catastrophe strikes. One major blowout can cost millions of dollars, easily outstripping insurance limits and sometimes even putting a company out of business.***

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With oil rig rental costs running as high as US \$30,000 a day, the temptation to cut corners and hurry a drilling project along is huge. Skip the cement for a stretch of casing, and you not only save the \$5,000 cost of materials but also the expenses that come from the 24-hour delay for curing. Throw in a cheap labor force – untrained and inexperienced – and costs are further reduced.

When disaster strikes, however, saving \$5,000 worth of cement no longer looks like such a good tradeoff.

Some may argue taking risks is part of the business. They may see the average of one blowout for every 1,000 wells drilled as an unavoidable result of man disturbing uncooperative natural forces. They can even chalk it all up to bad luck.

Those with decades of experience in cleaning up the aftermath of blowouts know, however, that human error accounts for 99% of these massive oil well disasters that endanger lives, property, and the environment. And unlike geologic formations or bad karma, human error is a factor



A major blowout can cost millions of dollars. (Images courtesy of Travelers)

that managers can do something about.

### Challenges in today's environment

This is a tough and exciting time to be in the oil drilling business. Regardless of how much the price of a barrel of oil bounces up and down, experts agree there are profits to be made in American fields. That's an incentive that is driving boom times in our country's oil industry to unprecedented levels.

Operators are on track to drill close to 59,000 wells in the US this year. That number adds up to more wells under development than all of the land and offshore exploration wells combined around the rest of the world. It also means there is plenty of opportunity for things to go wrong.

One circumstance feeding that opportunity for mishap is the lack of experienced employees working in the fields. Oil drilling has always been a cyclical industry, but in the late 1980s and early 1990s, the price of oil dropped so far that a number of operators went out of business, and many workers left the industry permanently, finding jobs elsewhere.

Today, finding experienced workers in the numbers needed is difficult, which means operators must frequently hire people with few skills. The oil industry isn't alone; many blue-collar and hard-hat industries also are facing labor shortages. But for oil operators, the lack of experienced workers extends beyond the bodies needed in the field to the veterans who should be leading crews.

In fact, many industry analysts talk about the experience gap. There are workers in their 50s, getting ready to retire. There are workers in their 20s and 30s, learning the ropes and gaining experience. But there is a decade of missing employees who would be in their 40s now, being groomed to take over, if only they hadn't left during the bust of the late 1980s and early 1990s.

In addition to searching for experienced employees, managers are faced with the challenge of getting good equipment. With the rig rental numbers nudging 2,000 week after week, it is fair to say that the equipment is being operated at 100% capacity. That means there is very little downtime for maintenance and repair. Yet when faced with the choice between getting a poorly maintained rig or getting none at all, operators often feel forced to take what is offered. When equipment begins to falter onsite, workers may push ahead, hoping they can simply get through with patchwork fixes until the job is done. Equipment problems add to the hazards of an already dangerous job.

Despite these multiple challenges that operators and contractors must cope with even as they try to hold down costs, there are steps that managers can take to make their operations stand out, both for profitability and safety.

## What smart managers can do

Five strategies can make a difference to drilling operations.

1. Create conditions to retain employees. Constant turnover is bad in any organization, but can be particularly hazardous when circumstances require specialized knowledge, safety awareness, and team cooperation. Managers can create an environment that builds employee loyalty and keeps workers from looking elsewhere for an incremental increase in their hourly rate. Not everything important to employees comes in their paycheck. Flexibility about hours or working situations is attractive to workers, as are perks like a company car or enhanced benefits. Teaching employees to act collaboratively as a team rather than to work competitively as individuals can build a spirit of togetherness that encourages workers to remain loyal. Older workers who may be thinking about retirement can be encouraged to stay by explicitly recognizing the value of their expertise and treating them as much-respected senior members of the team.
2. Be rigorous about training. Dedication to training, whether it is requiring orientation sessions for new workers or making skill enhancement courses available for established employees, is important for several reasons. The obvious benefit is that training helps the company avoid errors that can interrupt operations, lead to costly damages, and drive insurance premiums higher. But training also has the more subtle benefit of demonstrating to employees that the company cares about their safety and values them as an integral part of the team. By establishing a training regime and following through on its implementation, managers can position the company as an employer worth staying with.
3. Establish a culture of productivity through safety. If workers are applauded for taking risks when things go well, then no matter how often a manager says safety is the number one priority, workers will know otherwise. Managers should make it clear that corners will not be cut, that policies ensuring safety will be followed, and that problems should be identified and addressed immediately. That means employees need to be encouraged to step forward when they see issues developing. Too many blowouts have occurred because someone took a wait-and-see attitude, hoping things would get better on their own and not wanting to be blamed for speaking up.
4. Give employees what they need to do their job. Managers should support employees by making sure they have the right equipment rather than something that is jerry-rigged to make do. They should ensure that machinery is well maintained and that repairs, when needed, are completed promptly. Most of all, they should establish the expectation that everyone is going to take the time to do the job right.
5. Be selective about partners. No company operates entirely on its own. Managers can help direct their company toward partnerships that add value through specialized services. For example, look for an insurer that provides free training for

employees, free access to 24-hour advice, and in-house expertise on stopping oil well problems before they get out of hand.

Competitive insurance premiums are good for a company's bottom line, but gaining services that can control risks and reduce unanticipated costs pays off in the long run.

Managing a workforce at an oil field is not the same as running an office crew or keeping a retail store's employees on track. But many of the same techniques that make a manager effective in the corporate world can be adapted to conditions at a well site. Managers who focus on building teams, making safety a priority, and creating the conditions that allow workers to do their jobs well will give their companies an edge in today's rough-and-tumble environment.