



Centre for Energy, Petroleum and Mineral Law and Policy

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# **Management Decisions and Business Strategy in the Natural Resources Sector**

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## Me

- Undergraduate degree (BSc – Mechanical Engineering): University of Edinburgh
- Commissioned into Royal Air Force via Royal Air Force College Cranwell (19 years service)
- MBA/MPhil (Edinburgh Business School, Heriot-Watt University, Edinburgh)
- PhD (University of Edinburgh)
- 2005: Royal College of Physicians and Surgeons
- 2009: Stirling Management School via ESRC Fellowship
- 2013: MBA Programmes Director, University of Dundee
- Research interests: leadership, strategy
- Sectors: Natural resources, health, professional football



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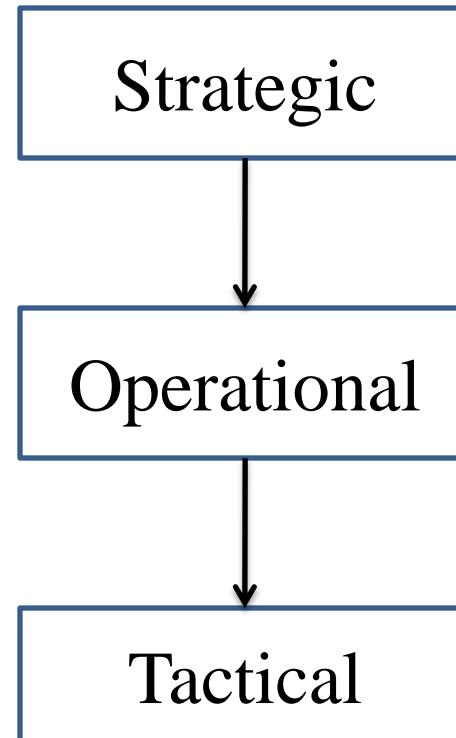


## Scope

- Management Decision (what/where/when?):
  - Theoretical framework: Grint's (2005) Social Construction of Leadership
  - Case Study: Obama/Deepwater Horizon
- Business Strategy:
  - Strategy v leadership
  - Strategy framework
  - Context
  - Scenario planning
  - Shell global scenarios



## Level of Analysis/MBA ‘Thinking’





## Theoretical Framework

- Grint (2005): *Problems, problems, problems: The social construction of 'leadership'*:
  - In socially constructed leadership, we should pay much more attention to the role of leaders and decision-makers in the construction of contexts that legitimates their intended or executed actions and accounts
  - The role of those responsible for decision-making is finding the appropriate answers, processes, and questions to address the problem respectively



# Theoretical Framework

- A critical problem is one that is self-evident in nature and that requires swift decision-making and action
- A tame problem may be complicated, but resolvable because there is a point where the problem is resolved and it is likely to have occurred before
- A wicked problem is complex, rather than just complicated, it is often intractable, and there is no uni-linear solution



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## Case Study:

*Crisis averted versus crisis created: can social construction explain the leadership style of President Barack Obama during the BP Deepwater Horizon crisis?*

Business Leadership Review 10 (2): 7-15



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## Case Study: Context

- 20<sup>th</sup> April 2010, BP's Deepwater Horizon oil rig in the Gulf of Mexico exploded:
  - Loss of 11 human lives; an environmental disaster; the loss of livelihoods for many along the US coastline; the near downfall of an international oil company; and a President, heavily criticized for his lack of action to resolve the situation for the American people
  - On reflection, therefore, one might enquire about the *leadership* of one of the main actors in this crisis, President Barack Obama

## **Case Study: Context**

- At this time, the people of the USA were most likely looking for guidance in this period of significant uncertainty
- Obama's response, therefore, seems to have been perceived as ineffective, which demonstrated little or no will for action

## Case Study: Relevance

- Crisis management:
  - President Obama entered the crisis late: he first met with BP personnel 50 days into the crisis
  - The implications, therefore, of President Obama's late entry (one might argue) is that it can enhance the anxiety of the public in that they that do not know how they are going to be affected by the disaster — in effect, there is not enough direction given

## **Case Study: Relevance**

- President Obama's leadership style was criticized: being too indecisive; seeking consensus for too long; and not being able to make strong powerful decisions quickly
- The consequence of his leadership style was massive public scrutiny of how the President handled the situation
- By the time the US Government had stated that they would contribute to the clean up along the Gulf coast, it was (perhaps) far too late for the President to convincingly act out the role as Commander-in-Chief

## Case Study: Relevance

- One might argue that some of President Obama's actions point towards a context where there was a wicked problem, which in turn demanded leadership, or a collaborative resolution
- Where President Obama failed — it is suggested — was convincing his followers of the same
- It seemed that the American public had their own perception of the context, and this appeared to resemble more of a crisis/critical problem, demanding authority and action on the President's part

## Case Study: Relevance

- Mitt Romney, illustrated quite well how many Americans felt about the President's leadership of the oil spill:
  - *“When a crisis is upon us, America wants a leader, not a politician”*
- It appears that America does not want a leader in times of what they see as crisis, they want a commander, or more precisely, they want the appropriately named Commander-in-Chief

## Case Study: Relevance

- Although President Obama recognized that the problem was ‘wicked’ it is suggested that he a) sought to blame, b) did not persuade the American people that it was wicked, and c), did not get over to the said people that he would employ the role of Commander-in-Chief if need be
- In a perceived or actual crisis — in addition to blame — the American people may want their leaders to be commanders, a role that George W. Bush was very willing to act out post 9/11, and perhaps in recognition of this role, was re-elected in 2005

## Case Study: Summary

- For example, ask what kind of problem do I have?:
  - Critical : ‘boss’ it (provide the answer)
  - Tame: ‘manage’ it (organise the process)
  - Wicked: ‘lead’ (ask questions and accept that there is an increasing requirement for collaborative resolution)
- See Figure 1
- Let people know what kind of problem one has
- Be prepared to command, manage, and lead where required





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## **Business Strategy: Strategy v Leadership**

- Strategy & leadership are 2 separate but related concepts
- No longer see defining role of the CEO as a master strategist or expect a single mind to do all the strategic thinking for our organizations



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## **Business Strategy: Strategy v Leadership**

- What is the relative importance of strategy & leadership?
- For example, is the success of Virgin more to do with leadership than strategy?
- In strategic management field, relative importance of these 2 variables has ebbed and flowed



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## Business Strategy: Strategy v Leadership

- History of leadership & strategy:
  - To 1980s: using right framework and choosing the right strategy was seen to be more important than having the right individual at the top
  - ‘Leadership’ was noticeably absent from writings on strategy; lots on techno-economic factors (such as: PLC, market share, experience curves, portfolio matrices, industry analysis)





## Business Strategy: Strategy v Leadership

- History of leadership & strategy:
  - 1980 – 2000 saw: rapid rise of, for example, CNN and Wal-Mart suggested something else; spectacular turnaround of Chrysler/IBM; boost in shareholder value of Coca Cola/General Electric all suggested *leadership* and *vision*.
  - Significant interest in charisma, transformation, and ‘heroes’ (and associated leadership theories). See: Ted Turner (CNN), Lee Iaccoca (Crysler), Jack Welch (General Electric)





## Business Strategy: Strategy v Leadership

- History of leadership & strategy:
  - Outstanding leadership = less strategic acumen, and more about ability to rekindle entrepreneurial flame, raising of aspirations, creation of high-spirited, high performing cultures:
    - Research suggested that CEO should ‘manage’ the values of the organisation and create and change cultures
    - Move away from centralised strategic planning to **one** of vision and leadership





## **Business Strategy: Strategy v Leadership**

- History of leadership & strategy:
  - Present: stock market bubble and corporate scandals (e.g. Enron, Lehman Brothers) has allowed strategy to come back to the fore
  - End of charismatic ‘celebrity’ heroic CEO



## Business Strategy: Strategy v Leadership

- History of leadership & strategy:
  - Rate of change has not relented BUT:
    - Now interested in strategic logic governing market leadership + personalities/leadership
    - Lee Scott (Wal Mart), Sam Palmisano (IBM), Douglas Flint (HSBC) do not seek this celebrity status.
    - In addition leadership style = quiet, self-effacing, and authentic





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## **Business Strategy: The Essentials**

- Development and Sustainability of Competitive Advantage (DSCA)



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## **Business Strategy: Decisions To Be Made**

- How organizations relate to competitors in terms of their competitive business strategies
- How broad and diverse organizations should be in terms of their corporate portfolios
- How far organizations should extend themselves internationally
- How organizations are creative and innovative
- How organizations pursue strategies through organic development, acquisitions or strategic alliances



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# **Business Strategy: Implementation = Leadership**



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## **Business Strategy: Context**

- Important to examine role that environmental context plays in determination of strategy
- Importance of context in shaping the domain in which strategic decisions are made now and in the future



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## **Business Strategy: Context**

- Context includes:
  - globalization, rapid technological process, shorter plcs, product proliferation, shorter market channels, increasing consumer sovereignty, revolution in telecommunications, shrinking distance, extensive migration, clashes of civilization, climate disruption, greater secularization, increasing affluence, and increasing poverty



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## **Business Strategy: Context**

- In stable contexts, deliberate planning works well
- In unstable environments, a more adaptive and flexible strategic approach is required
- In addition, required culture (in unstable environments) is one of enterprise and creativity
- Such alignment patterns of context and culture create the harmony necessary for designing and delivering effective strategy



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## **Business Strategy: Context**

- In last 25 years, pace of change and complexity of variables that make up environmental contexts has shifted from stable to dynamic:
  - Strategy content: deliberate/planned to more adaptive/learned (= relatively easy)





## Business Strategy: Context

- In last 25 years, pace of change and complexity of variables that make up environmental contexts has shifted from stable to dynamic:
  - Cultural shift from bureaucratic to entrepreneurial (= difficult):
    - Culture can be organizational DNA and cannot be altered easily or quickly
    - As contexts have changed, this has been most difficult to change



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## **Business Strategy: Context**

- History tells us that change on a dramatic scale is nothing new to the world:
  - Studies in political science, industrial history, international sociology, and education show that predecessors have experienced and adapted to change on a grand scale



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## **Business Strategy: Context**

- Waves of change in social history:
  - History is often described in various terms; for example, time, modes of organizing, and religions



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## Business Strategy: Context

- Waves of change in social history:
  - Wave studies suggest several popular segmentations:
    - 1<sup>st</sup> Agricultural society: mid 16<sup>th</sup> – late 19<sup>th</sup> century in western world
    - 2<sup>nd</sup> Industrial society: early 19<sup>th</sup> century to middle of 20<sup>th</sup> century (1<sup>st</sup> wave 2% lived in urban settings in US; 2<sup>nd</sup> wave = 75%)
    - 3<sup>rd</sup> Information society: started mid 20<sup>th</sup> century



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## **Business Strategy: Context**

- Waves of change in social history:
  - Wave studies suggest several popular segmentations:
    - 4<sup>th</sup> (?) Knowledge society: millennium to 2050:





## **Business Strategy: Context**

- Wave of knowledge/society era is accompanied by emergence of Market State as a new form of governance
- Theories of modern state:
  - Princely states (1494-1572)
  - Kingly states (1567-1651)
  - Territorial states (1649-1789)
  - State-nations (1776-1870)
  - Nation states (1861-1991)
  - Market states (1989 – onwards)





## **Business Strategy: Context**

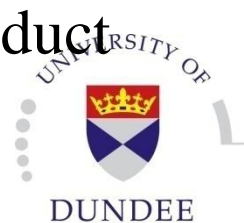
- As liberal democratic model became favoured form of governance, states looked to market mechanisms to allocate scarce resources
- Traditional boundaries between Government and business underwent rapid and significant transformation
- Rise in MNC: in 2002, only 47 of the largest economies in the world were nation states – the rest were MNCs





## Business Strategy: Context

- In new Market State, business may provide more of the original function of nation state but they come under more scrutiny from public and civil authorities:
  - Trends suggest that they will have to continue with this duality
  - Ecology, environment, and public health will have to be counterbalanced with the search for new markets, product innovation, and profitability





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## **Business Strategy: Context**

- Corporate strategies will have to embrace the success of society in which firms operate as a precursor to their own market aspirations
- Corporate governance and corporate strategy will have to coalesce as the knowledge society – in tandem with the Market State – develops



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## **Business Strategy: Context**

- Making sense of the knowledge society and the market state:
  - One approach is to understand better the variables that will form the first period of the next wave by tracing their history to help determine their likely trajectory and impact



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## **Business Strategy: Context**

- Making sense of the knowledge society and the market state:
  - In the ‘long-view’, embrace scenario planning to help make sense of complex future contexts:
    - Identify key variables likely to play a significant role over a specific future time period
    - Analysis in terms of certainty/uncertainty in outcome
    - Scenarios are built around uncertain variables





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## **Business Strategy: Scenario Planning**

- Scenario modeling: generates pictures/stories of future that informs decisions in present
- Strategic planning is more about thinking (analysis, synthesis, imagination, reflection, and preview) than about the project management of a set of strategic assets towards an end goal



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## **Business Strategy: Scenario Planning**

- Western and capitalist focused
- Making sense of (and predicting) the future can be possible



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## Business Strategy: Scenario Planning

- What do scenarios look like?
  - Scenarios are different stories about how the future might (NOT SHOULD) evolve
  - Postcard analogy: describe business conditions in, say, 20 years time and sent back to you
  - Generic scenarios are built by several organizations (UN, Chatham House, CIA, Economist, (WHO))
  - These can be used to guide local, more customized scenario exercises





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## Business Strategy: Scenario Planning

- What do scenarios look like?
  - Shell and *Foresight Group* with UK DTI produce some of the most respected



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## Business Strategy: Scenario Planning

- 3 main uses for scenarios:
  - Influencing social and political affairs and are developed for the future of a country (new ideas can be generated and communicated to a large audience)
  - Developed for strategic decision support (entering key markets)
  - Learning and development in an organization
- With neutral space and a shared vision, the scenario process has proved useful in conflict resolution





## Business Strategy: Scenario Planning

- Origins of scenario planning
  - From US military during WWII and on to RAND Corporation
  - Then developed into social issues like urban decay and poverty
  - Became a better way of thinking about the future than forecasting
  - Planners faced with increasing complexity in their external contexts had to embrace uncertainty rather than predictability





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## **Business Strategy: Scenario Planning**

- Origins of scenario planning
  - Big thinking and different thinking: thinking beyond the confines of the forecasting paradigm to the imagination of what deep futures could look like



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## **Business Strategy: Scenario Planning**

- When should scenario planning be used?
  - Uncertainty
  - Pace of change
  - Complexity of decision
  - Planning horizon is long



## **Business Strategy: Scenario Planning**

- Benefits and drawbacks:
  - Not required in depth, but consider:
    - + : The process of scenario planning enables us to think about environments and how we might shape them to our own ends:
    - + : ‘Out there’ space: near/micro context and far/macro context



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## **Business Strategy: Scenario Planning**

- Benefits and drawbacks:
  - : Do they spot/pick up soft signals; 9/11 commission
  - : Too scientific/methodological
  - : High level of abstraction
  - : Hierarchical/individualist/Western-based



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## **Business Strategy: Scenario Planning**

- UK Cabinet Office reviewed 18 scenarios to 2050; main variables analyzed were:
  - Economy: globalization
  - Technology: IT revolution
  - Environment: climate change/energy crisis
  - Social issues: demographics/clash of cultures





## **Business Strategy: Scenario Planning**

- These variables are not mutually exclusive:
  - Interactions cause further complexity as the future unfolds
  - BUT: if we analyze them and their potential interactions and build the results into scenarios, surprising outcome should be minimized and ‘future shock’ limited to things that cannot easily be foreseen



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## **Business Strategy: Scenario Planning**

- Joint Doctrine and Concept Centre, UK Ministry of Defence
- Royal Dutch Shell = world leader in scenario development
- Their global scenarios will provide an understanding of the variables that will help shape the next wave



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## Shell's Global Scenarios

- For last 30 years, Shell has produced generic global scenarios to help executives in their strategy making
- Throughout 1990s, it examined concept of TINA: there is no alternative to the progress of globalization, the march of new technologies, and free market economies in its 3-year scenario cycles
- These scenarios tried to articulate the dilemma between the efficiencies of *market-centred worlds* with *the values and social cohesion of communities*



## Shell's Global Scenarios

- Three drivers of the next wave:
  - To make sense of initial period of next wave, Shell offered the following 3 drivers:
    - globalization
    - community progress
    - the power of the state to control, through regulation or coercion, terrorism and market governance







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## Shell's Global Scenarios

- Three drivers are not only the variables that would impact the next wave
- Variables that can be known with greater certainty – or predetermined variables – enter each scenario in their own way



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## Shell's Global Scenarios

- For these scenarios, Shell had 7 predetermined variables:
  - US/China and changing globalization patterns
  - African futures
  - Change from nation states to market states
  - Demography and migrations
  - Economic growth
  - The search for energy security
  - The energy and carbon industry



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## Shell's Global Scenarios

- After consideration of the 3 drivers of change and the 7 predetermined variables, scenario builders can begin to create the stories of the future
- This will help understand and shape a very different future context to which organizations have to adapt and in which they will have to operate



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## Shell's Global Scenarios

- Used to help thinking so better strategies can emerge for the operating companies of Shell:
  - Defend against some of future outcomes
  - Take advantage of others



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## Shell's Global Scenarios

- The gravity of the task in a borderless world under environmental destruction is huge
- That is the challenge for executive leadership (public, private, nfp, religious)
- That said, uncertainty attached to strategy is much reduced with a thorough examination of context





## In Summary

- Need to understand the variables that shape the current and future context of business so that you can make better strategic decisions in the present
- Context has impact on content of strategy and culture in which strategy has to be implemented; these feed - and work with - a creative cognition
- Must always keep mind ‘open’ and question and observe patterns of and in environments



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## In Summary

- Develop strategic response (including taking advantage of opportunities and defend against serious threats)
- So: contextual analysis and strategic vision that is both long and peripheral into your leadership practice



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