Energy Strategy Value Series

Corporate Risk Management & Portfolio Balancing

Alboran uses the elephant in the room as a metaphor for a corporate responsibility issue that is present yet no one seated around the table wishes to either acknowledge or raise for discussion. That is why an external review of your corporate strategy and risk profile of your project portfolio can save your company from major setbacks.

Your organisation must seek to operate at or above the industry line of best practice. Failure to do so may herald a period of strategic drift and then flux. Ignoring the effects of the elephant in the room only escalates the problems. It then may take a massive correction to corporate strategy to return to healthy financial performance - the big bang event you would want to avoid.

Alboran can audit, analyze and quantify your risk exposure and help determine where adjustments should be made. Our added strength is that we can benchmark your performance and risk profile against your peer group competitors. Our analyses cover a wide range of performance and risk indicators including country risk, policy change risk, unbalance in the portfolio, financial gearing, potential cash flow shortfalls and volatility in reserves. Alboran's expertise is based on detailed benchmark studies parts of which have been published in the peer-reviewed scholarly domain.

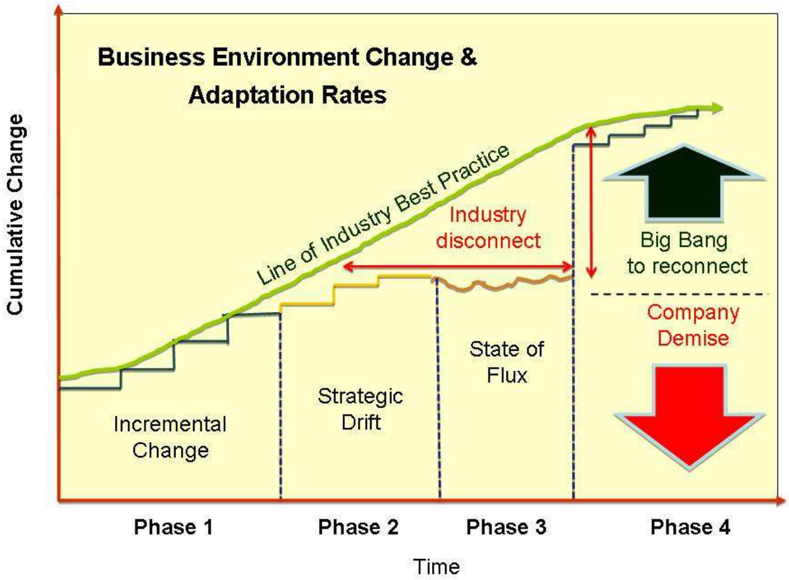
1. The art of managing risk in complex field operations and volatile energy markets

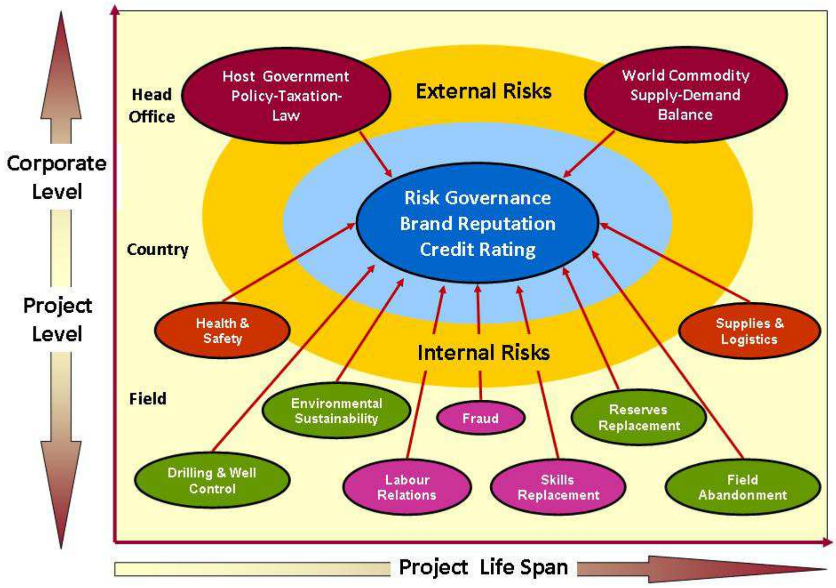
***First Break*, 2012, Vol. 30, Issue 6 (June), pages 111-119.**

The pressure on the petroleum industry to deliver more oil and gas beyond its impending peak is mounting and the range of strategic and operational risks has become much broader. Companies face the risk of credit rate downgrades (BP), nationalization of assets (Repsol), volatility in commodity prices (Eon), debt-gearing shocks (Chesapeake), regulatory caps on earnings (El Paso), country risks (ConocoPhillips ventures in Russia and Venezuela), and reputational risks (global fracking fears). This article provides a framework for risk management and documents telling examples of setbacks and failures that highlight the new trend toward higher risk profiles in the oil and gas industry. Recommendations are formulated for dealing with – and mitigating – some of these growing risks.

2. Risk management for sustainable profits

***Petroleum Review,* 2012, October Issue, pages 24-16.**





The general principle that higher risk projects provide opportunities for higher returns on investment still applies to E&P projects. However, if a portfolio assumes a higher risk profile, the balance between risk and opportunity may become lopsided. The survivor companies of the future are not necessarily those companies which generated the highest profits in the past. In the long run, lower risk companies are likely to have better, sustainable returns on investment.

When corporate learning ability is compromised, the company's inability to read risk exposure is reduced and accelerated performance deterioration occurs. As the company's risk profile increases to untenable levels, adverse events will start to impact performance. If the disconnect remains unrecognised and is not halted by management, the likely outcome is the eventual demise of the company. To survive, a major realignment of values must be undertaken (the Big Bang reconnect). The most important elements to prevent such disruptive Big Bang events remain: (1) generating creative solutions utilising intellectual capital to look at problems in unconventional ways, (2) analysing which project options and solutions are viable, and (3) adopting only the worthwhile projects where risk and opportunity are balanced and not adversely impacting the company's project portfolio.

The problem is that company's that have entered in strategic drift and flux often suffer from a progressive loss of common sense. Conscientious risk management and corporate learning that should be leading the change process are no longer critically monitored by the top management. Such companies become increasingly out of touch with reality and they are progressively incapable of recognising the tell-tale warning signs of undue risk exposure.

We are delighted to provide additional information on our services. Please contact us by Phone or Email:

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