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Of People and Profits

Think good leadership is intangible? Think again. According to Brian Martin, founding partner of Opus Executive Partners, the damage caused by poor leaders is very real. Reckless cash burn, poor commercial judgement and inflated bonuses can quickly erode shareholder value. Good leaders have the skills, aptitude and courage to restore what has been lost - and then add to it.

It was this kind of mismanagement that in 2007 prompted Martin to found Opus, a specialist advisory and resourcing firm serving the natural resources industries. Martin brought onboard former Shell and McKinsey & Co Executive Mark Weedon and Senior Executive Search Consultant Oxana Bristowe. The company was strengthened further with the addition of Lord Truscott, the former UK Energy Minister and Government expert on Russian affairs, together with other prominent Board members.

The partners had established executive search careers - Martin has been a leading figure in the industry for 23 years, having previously co-founded the global energy recruitment group Maxwell Drummond International – but Opus was set up to be very different.

“We recognised there was a need for a business to take ownership of leadership ‘resourcing’ and governance advice in the natural resources space, to activate and agitate on these issues,” recalls Martin.

He believes E&P often lags behind other industries when it comes to management and leadership. “Oil and gas companies are literally 10 to 20 years behind other industries in terms of their business thinking. But they get away with it because there’s always so much demand for the commodity that is oil and many shareholders just don’t understand the perceived black art of exploration – many companies are happy with that level of ignorance because it means they can’t be easily challenged.”

But Martin and his team are prepared to make that challenge, often pro-actively engaging with Boards and shareholders, providing robust advice and insightful analysis to help turnaround ailing businesses. It can be a thankless task: directors and shareholders are human beings and have their own interests and reputations to protect.

“At Opus, we have this activist mentality, analysing why companies are under-performing and what can be done about it,” says Martin, obviously frustrated that, seven years on from the Higgs Review of corporate governance in the UK, so many poorly-run companies are still wasting shareholder funds. “It can be a very lonely place to be.”

Shareholders themselves are surprisingly tolerant of this wastage. While retail shareholders are normally very well informed and passionate about the stocks they hold – it makes a huge difference when it's your own money – their holdings are rarely large enough to effect change. Institutional shareholders, with hefty slugs of equity, hold a lot of power but too often fail to use it.

But this is changing. The fall-out from the 2008 financial crisis has made the market more receptive to the Opus message that good governance creates, and protects, value. “Perversely, the recession was a good thing,” says Martin, never afraid to take a counter-intuitive position. “When the market was buoyant, it was very easy for a badly run company to still have a relatively strong balance sheet and share price. It was very difficult for us to talk to companies or their shareholders about improving the company when you looked at the headline figures. But when the market crashed, there was nowhere for these companies to hide.”

Or, as investment guru Warren Buffet is so often quoted as saying, it's only when the tide goes out, you see who's swimming naked. “Suddenly shareholders found their whole portfolio was on its knees, their own credibility as fund managers was in question and they were looking into the abyss. That's when people started to develop a back bone and decided it was time to bring about change. That's when they really started listening to what we were saying.”

That change meant better leadership. Sometimes it was just a question of improving guidance or strengthening some of the new non-executive positions. In other cases, it meant wholesale change at Board level.

“The only way of turning round these businesses was better leadership. The recession gave the new leaders an opportunity to strip out huge amounts of waste, tighten belts and show they could run companies in bad times as well as good.”

Opus nudges shareholders and companies towards change, and then finds the right leaders to deliver that change. This is no small task. “There's a limited supply of individuals that are able to add real value,” says Martin.

This is particularly true of the non-executive directors, a role that can add real rigour and insight to board decisions yet so often brings little but more of the same. “People are being recycled all the time. There are people who are serial non-execs who add very little or no value,” says Martin, adding that many companies insist on prior board-level experience when it comes to hiring non-executive directors. “There's a comfort factor in only hiring people with plc experience. But how hard can it be?”

The qualities Opus, and indeed the Higgs Review of 2003, look for in a non-executive do not necessarily come from time served: non-execs should have integrity and probity, sound judgement, the ability to question and probe, to challenge established thinking and to provide a fresh perspective on the company and its strategy. And all of this must be done in the most skilful manner, to influence, rather than alienate, even when challenging entrenched corporate views.

The small cap sector presents a particular challenge when it comes to sourcing senior executives. A middle to senior manager of a large corporate may feel themselves ready to lead a small cap but must be mindful of the risks: for a non-producing company with little financial headroom, things do not have to go very wrong to go very very wrong.

This is where Opus can help, providing strategic advice on what the company needs and who can deliver it. The

results can be seen very quickly and are a source of obvious pride and satisfaction to the Opus team. “In one company, we rebuilt the whole management team and within 18 months they went from 60c a share to \$12 a share now. In another company we rebuilt the Board bar one person and in 2 years the shares went from 8 pence to £1.80.”

Of course, in that timeframe, the market as a whole has lifted but it hasn't lifted all companies: many have continued to ail as poor leadership has failed to capitalise on improved conditions. Martin's frustration continues. “Who wouldn't want to have a business that is well managed and well governed?” he asks. “A well run, well governed business makes money and who wouldn't want that?”

Who indeed.

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Opus Executive Partners is the preeminent, independent, retained Search and Advisory firm who work exclusively within the Natural Resource Sectors, worldwide. Supporting these companies and their key stakeholders and advisers in order to help them be better run and better governed businesses or investments.

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