

# ONGC's CAPACITY FOR EXPLORATION

As discussed in the previous Chapters, delays and inefficiencies adversely impacted exploration efforts and its results in ONGC. In order to examine whether these process lacunae were a result of lack of capacity in ONGC, Audit looked at the following issues:

- Whether ONGC has required human resource for exploration;
- Whether ONGC has sufficient financial resources for exploration; and
- Whether ONGC has the latest relevant technology for exploration.

### 5.1 Human Resources (HR) in Exploration & Drilling Services

Exploration efforts in ONGC are carried out by the Exploration Group and the Drilling Services. Both these groups together form 40 *per cent* of ONGC's human resources. Audit revealed the following issues with human resource management in exploration and drilling services.

#### 5.1.1 Comparison with international best practices

In 2005, ONGC in association with M/s McKinsey & Company had undertaken a study (ARCUBE<sup>25</sup>) to align its HR practices with international benchmarks. The report indicated significant gaps in capabilities, process, ownership and infrastructure of the exploration group. It also pointed out significant over-manning in some areas which constrained resources in critical areas *e.g.* rig operating crew, sub surface teams. The study had made a set of recommendations for improvement in HR practices in exploration and drilling services.

Based on these recommendations, ONGC initiated the practice of peer review at Basin level. The Company also carried out skill mapping exercise for exploration group. However, ONGC did not address the issue of manning in both the groups. Even after a lapse of more than five years from the submission of the ARCUBE study, the recommendations were still (March 2012) under review by the Management.

ONGC replied (March 2012) that ARCUBE study primarily focused on two aspects – manning norms and skill mapping. The manpower studies being carried out to work out recruitment of Executives and staff is based on the manning norms suggested under ARCUBE study. Skill mapping exercise too was carried out for exploration group of Western Offshore Basin based on ARCUBE recommendations.

The reply indicates that the issue of manning remains to be addressed by the Company. Improper manning has had a significant impact on the operational efficiency of ONGC as can be seen in para 5.1.2 below.

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<sup>25</sup> ARCUBE- R<sup>3</sup> means *Rosters, Roles and Responsibilities*.

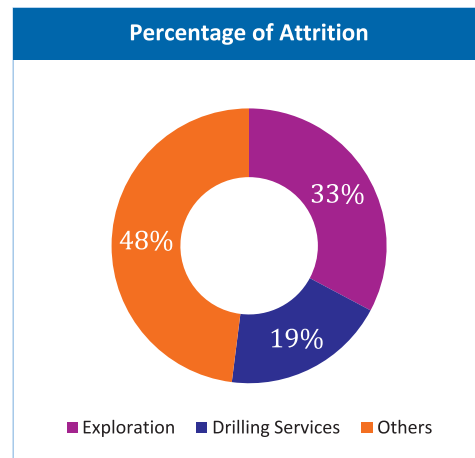
### 5.1.2 Acute shortage at operational level in Drilling Services

In the 6th conclave held in October 2006, Director (Technical & Field Services), ONGC had brought out that total requirement of Rigman and Topman was 1,600. Against this requirement, ONGC had less than 200 Rigman and Topman which directly affected operations. In 2009, the Director (T&FS) again stressed that the drilling services group was forced to deploy Q3 Executives (those with lower qualifications) against Q1-Q2 positions affecting the operating efficiency of drilling rigs. Thus, the issue remained to be addressed over 2006-09.

ONGC stated (March 2012) the need of staff in drilling and production functions have been met by hiring of Tenure Based Field Operators. The Company also mentioned that the numbers of Rigman increased to 309 in 2011 from 234 in 2007 and assured of plans to recruit another 190 staff in Drilling Services in 2012. Even with the augmentation of rig staff through hiring and recruitment, the actual numbers remain way below the projected requirement of the Company which has contributed to Company's low performance in drilling.

### 5.1.3 Attrition

There were 598 cases of employee attrition in ONGC during the period 2007-08 to 2010-11. More than half of the personnel who left belonged to exploration (196) and drilling services (115). The highest level of attrition took place in E4-E5 cadres (63 and 68 *per cent* in drilling and exploration cadres respectively) which form the core cadre for knowledge and skills at the Executive level. While discussing the reasons for attrition, Director (HR) mentioned (2007) that rising E&P activity and growing demand for skilled professionals in oil industry has resulted in large scale exodus of trained drilling engineers, geoscientists and other core professionals from ONGC.



ONGC replied (March 2012) that as a corporation, out of the total manpower of approximately 33,000, the attrition in ONGC is just 0.02 *per cent* only. ONGC also opined that certain disciplines like drilling & exploration may attract cyclic attrition peaks but assured that the situation was well under control.

Audit concern is specific to the attrition occurring at the key skill levels. In the Exit Conference held in March 2012 with Audit, Director (T&FS) admitted that the attrition in drilling services had affected them adversely and stated that the tenure based/new

recruits would take time to fill the gap created with the mid level personnel leaving the organization who were the core cadre with rich experience of more than 20 years.

#### 5.1.4 Lack of succession planning at top level

The ONGC Board comprises of Executive and Non-executive directors, viz. functional directors, official nominee directors and non-official directors. MOPNG is responsible for appointments to these positions. In a public listed Maharatna like ONGC, the stewardship and leadership role of the Board is crucial. Moreover, since E&P industry is a specialized sector, suitable understanding of the sector is also important. As such, providing scope for succession planning would be a good practice while appointing new incumbents to the Board positions. Audit noticed that many Board members, including the Chairman and Managing Director (CMD), held additional charge of important posts for long periods as given below:

Vacancy position at Board level				
Sl. No.	CMD/Director	Duration of vacancy		
		From	To	Period (days)
1	CMD	25.05.2006	04.07.2007	406
		01.02.2011	02.10.2011	245
2	Director (HR)	15.07.2010	25.05.2011	315
3	Director (Exploration)	01.02.2011	24.02.2011	24
4	Director (Finance)	16.09.2011	21.05.2012	249
5	Director (Offshore)	03.10.2011	31.05.2012 (was continuing)	242

*Source: Data furnished by ONGC in February 2012.*

Audit also observed that the position of Chief, Deepwater Drilling lay vacant during the period 16 October 2009 to 03 June 2010 for a period of 231 days due to delay in identification of a successor.

ONGC replied (March 2012) that Board level positions are filled by the Public Enterprises Selection Board. However, ONGC did not comment on the delay in appointing Chief, Deepwater Drilling which was within the purview of the Company. The Ministry did not respond on this issue so far (July 2012).

#### 5.1.5 Gaps in hiring consultants/domain experts

Being a knowledge intensive industry, ONGC hired external expertise from time to time. As per the existing procedure, domain experts/consultants were shortlisted by a committee for empanelment. The list of empanelled consultants was circulated to various work centres for hiring based on their requirement. Thus, a transparent system of competitive bidding was not adhered to in hiring consultants.

Fifty *per cent* of the consultants hired were ex-ONGC employees. The ex-employees of ONGC were paid as per the rates prescribed in February 2007 (revised in May 2010) while rates were negotiated with non ONGC domain experts/consultants. The user

Basins did not send appraisal reports on consultant services. There was, thus, no record of the effectiveness of services provided.

ONGC itself found (August 2010), the empanelment approach limiting and considered a robust matrix based approach for actual hiring/keeping the top 2-3 experts on priority retainership basis. A decision in this regard was yet (March 2012) to be taken.

ONGC in reply (March 2012) stated that appraisal reports on consultant services would be ensured in future. While assuring that Audit's view regarding hiring the consultants would be considered, the Company stated that consultancy in the E&P industry had not reached a professional stage in India and that ex-ONGC employees who had acquired the domain expertise through years of experience were the best suited for the purpose. It also added that the method of empanelling such consultants was transparent and that quality services were received at the most competitive prices.

Audit is of the opinion that ONGC being an E&P company with global reach, the maturity of consultancy in E&P sector in India should not restrain ONGC's ability to hire international consultants/ experts.

## 5.2 Underutilisation of financial resources

A critical input for the exploration process is financial resources. A comparison of ONGC's budget (based on work commitments) with the actual expenditure shows that ONGC had been unable to utilise the budgeted funds.

Financial and physical performance													(₹ in crore)	
Activity	2007-08			2008-09			2009-10			2010-11				
	Plan	Actual	Shortfall	Plan	Actual	Excess	Plan	Actual	Shortfall	Plan	Actual	Shortfall /Excess		
<b>Financial Performance</b>														
Survey	2387	2346	-41	2766	3072	306	3159	2234	-925	2036	1667	-369		
Exploratory Drilling	2951	2432	-519	3244	4299	1055	7687	7288	-399	8328	8638	310		
<b>Total</b>	<b>5338</b>	<b>4778</b>	<b>-560</b>	<b>6010</b>	<b>7371</b>	<b>1361</b>	<b>10846</b>	<b>9522</b>	<b>-1324</b>	<b>10364</b>	<b>10305</b>	<b>-59</b>		
Percentage shortfall/Excess			-9.5 per cent			22.6 per cent			-12.2 per cent			-0.3 per cent		
<b>Physical Performance</b>														
Survey in physical Qty.	2D (LKM)	20643	8157	-12486 (-60%)	68844	77125	8281 (12%)	30666	24951	-5715 (-19%)	25465	13116	-12349 (-48%)	
	3D (Sq Km.)	25373	19353	-6020 (-24%)	26382	26785	403 (2%)	24831	21741	-3090 (-12%)	23361	19355	-4006 (-17%)	
No. of Exploratory wells		138	98	-40 (-29%)	128	106	-22 (-17%)	150	128	-22 (-15%)	150	125	-25 (-17%)	

Source: Data furnished by Corporate Budget Section, ONGC in October 2011.

The above table also indicates that though the shortfall in budget utilization was within a range of 0.3 per cent to 12.2 per cent in 2007-08, 2009-10 and 2010-11, the shortfall in achieving physical targets was much higher (upto 60 per cent in surveys and 29 per cent in exploratory wells). On the other hand, though actual budget utilization during 2008-09 was higher than the estimates by 22.6 per cent, the Company failed to achieve the physical targets of exploratory wells during this year too by 17 per cent. This

indicated that the expenditure on exploratory activities was disproportionately higher than the physical achievements and reflected lack of budgetary control on these vital activities. This may be viewed in the context of Company's performance in surveys and drilling of wells reviewed by Audit in paragraphs 4.1.1 to 4.1.6 and 4.2.1 to 4.2.5 of this report.

ONGC in reply confirmed (April 2012) the audit observation by stating that the under utilization was due to under achievement of physical targets.

### 5.3 No independent assessment of state of technology in ONGC

ONGC mission includes 'Achieving excellence by leveraging competitive advantages in R&D and Technology with involved people'. Technology induction is, thus, a strategic goal and an essential requirement in the cutting edge field of exploration. In April 2007, the Deputy Chairman of Planning Commission (DCPC) wrote to the Minister of Petroleum and Natural Gas drawing his attention to the need for assessing the current status of technology in energy producing public sector undertakings. It was, therefore, suggested that the Board of ONGC be asked to commission an independent evaluation of the technology in ONGC and benchmark them against global best practices. ONGC Management responded stating that as they were fully confident that they had up-to-date technology, there was no need for an independent study. DCPC, however, reiterated (October 2007) his earlier views stating that *'in a world of rapidly changing technology it is only normal practice to submit management decisions to some type of external assessment'*.

In June 2008, ONGC Board decided that an independent consultant M/s Gaffney Cline and Associates (GCA) would be advised to make an independent assessment of the technology in ONGC. However, the work had not progressed till date (March 2012). It was, however, noticed that in their strategic meet with the Ministry (November 2009), the Executive Director & Chief Corporate Planning pointed out that ONGC as a PSU was not able to get best of the technology/expertise using current procedures and, hence, was severely constrained in adopting best practices, absorbing technology and hiring of domain experts. This lends an urgency to the issue of evaluation and assessment of technical capacity so that adequate steps at correction can be initiated.

ONGC in reply (April 2012) stated that the reference to engagement of GCA for independent assessment of technology induction as agreed in the 179th meeting of the Board had been noted and would be addressed.