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International oil companies in the post-studio era: Strategic responses of energy majors to the 2003–2008 price boom

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Abstract

This paper explores the strategic responses of "International oil companies" ("IOCs") to the changing conditions of the oil market in 2003–8, when the price soared to an all-time high of 147 USD per barrel. IOCs have been accused of concentrating on acquisitions, rather than on "organic development" of their reserve base (intended as those reserves added as result of exploration activities, addition and revisions), jeopardizing the sustainability of their business model. IOCs have been criticized by scholars and the media, whereas financial analysts mostly focused on the short-term performance. In this research, I argue that the decision of increasing the focus on acquisitions, rather than on exploration investment, has been a defensive strategic reaction, and probably the most efficient one, to changing conditions in the competitive environment. In order to investigate the claim, I analyzed the development of the reserves of the seven largest IOCs (BP, Chevron, ConocoPhillips, Eni, Exxon, Shell, Total) with the aim to define whether the additions to reserves have been a result of exploration effort or acquisitions. IOCs have been then broadly ordered into "strategic clusters" depending on their "market" or "traditional" approach. The resilience of these two main strategic options has been tested for the sustainability of their reserves structure and for the financial results during and after the boom (covering the period to 2011). The specific conditions of the market have also been considered: the world of hydrocarbons in the last years has been characterized by declining success rate in conventional exploration; declining size of new conventional discoveries; increased assertiveness by producing states; increased need for specific technical knowledge; and overall increase in financial risk and complexity of exploration and production operations. In response to such dynamics, some IOCs switched to a "holding" structure, with partial outsourcing of exploration tasks, in order to limit operative complexity and reduce risk. This strategic change is comparable to the evolution of Hollywood majors from the "studio" to the "independents" era in the late Fifties, as the movie industry faced declining per movie revenue and increased risk bundled with movie productions, and movie majors reacted by outsourcing productions to smaller, independent companies. Oil wells can be (loosely!) compared to movie productions, as barrels in a reservoir are comparable to movie tickets. If the expected amount of barrels in new "oil wells productions" declines, also oil companies may opt for an "independents" strategy, financing external exploration activities. The new specialized technical needs in the oil industry, ranging from deep-water drilling to unconventional, require a diverse set of skills and "technical creativity" that may be properly served by an "independents" strategy.

Biography

Dr. Stefano Casertano holds an MBA from Columbia University and a Ph.D. in international politics from Potsdam University. He is adjunct professor at Potsdam and Senior Fellow at Potsdam University. In 2012 he has been visiting scholar at Columbia University School of International and Public Affairs.