

Corporate IQ lifts oil profits

Ruud Weijermars* explains how the development of 'organisational intelligence' can help companies avoid costly crises while, at the same time, seize new opportunities.

The oil and gas industry is in a race to learn fast enough to master new technology solutions that enable the development of ever more complex hydrocarbon prospects. The continuous improvement of skills and competences is crucial to the success of the global oil and gas sector. An intelligent business approach is needed more than ever. Without it, retardation of a company's organisational IQ can lead to costly failures.

The energy business needs to move from 'smart' to 'genius'. Oil majors have been particularly good at organisational learning and this is reflected in their profitability. Their joint return on capital employed (ROCE) averaged a formidable 16% for the period 2001–2011, nearly double the ROCE recorded for the preceding decade. Indeed, the oil majors have long known that they need to excel at organisational learning to develop leading technology in order to stay attractive partners for the national oil companies (NOCs) which are now the world's prime resource holders. Unique knowledge has thus become a competitive instrument for the oil majors, as hallmarked by their trademarked concepts like Smart Fields (Shell), I-fields (Chevron), and Field of the Future (BP) – all of which are built around competitive knowledge. Such in-depth knowledge provides a licence to develop and operate new oil and gas fields together with NOCs.

Taking a closer look at the competitive peer group of oil majors, one can see a considerable spread in their performance over the past decade. A company's deviation from the peer group's annual average (see Figure 1), easily identifies the consistent outperformers, underperformers and average performers. The 'corporate IQ' concept explains the lower profitability of companies as a result of their slower and sometimes deficient organisational learning speeds. Slow learning lowers their 'corporate IQ index', which needs to be high in order to lead among peers.

The key to competitive performance lies in outsmarting one's peers by faster recognition of lurking risks and taking countermeasures. For example, the year

before the Macondo well disaster occurred (April 2010), ExxonMobil had also drilled into a difficult high-pressure formation in the Gulf of Mexico. Abandonment would lead to capital loss, after spending tens of million dollars; but that is what Exxon did based on due diligence. In hindsight, it was a wise decision not to overstep the drilling risk envelope, for it could have led to uncontrollable risks. This may have saved Exxon a potential failure similar to BP's Macondo well disaster (note the significant drop away in BP's ROCE figure in 2010). Likewise, Exxon has had its own brief affair in Russia, with a potential bid for Yukon nearly a decade ago. It subsequently pulled out, whereas both Conoco and BP entered into large Russian joint ventures – Conoco in Lukoil (now sold) and BP in its TNK-BP venture. The lagging profitability from these Russian (ad)ventures has in no small way contributed to the woes of the parent companies.

Smart companies are particularly good at applying lessons learned and avoiding past mistakes; they quickly recognise undue risks that could cripple the business. Their portfolios seek a proper balance between risks and opportunities. These so-called learning organisations are good at scanning the business environment for change and translating this change rapidly into opportunities to grow the corporate brand name and raise product sales. But they pull out when high risk is not rewarded by high returns.

In contrast, companies with lagging performance are often slow to react because their organisational learning capacity is compromised or poorly developed. Such organisations with lower corporate IQs miss the tell-tale signals from external and internal business indicators that should have urged them to accommodate change. Because their internal organisational capacities are inflexible and slow in recognising and adapting to change, such companies consistently underperform and often struggle to stay profitable.

*The views expressed here are entirely those of the author and can be read in more detail in Weijermars, R, 2011, Building

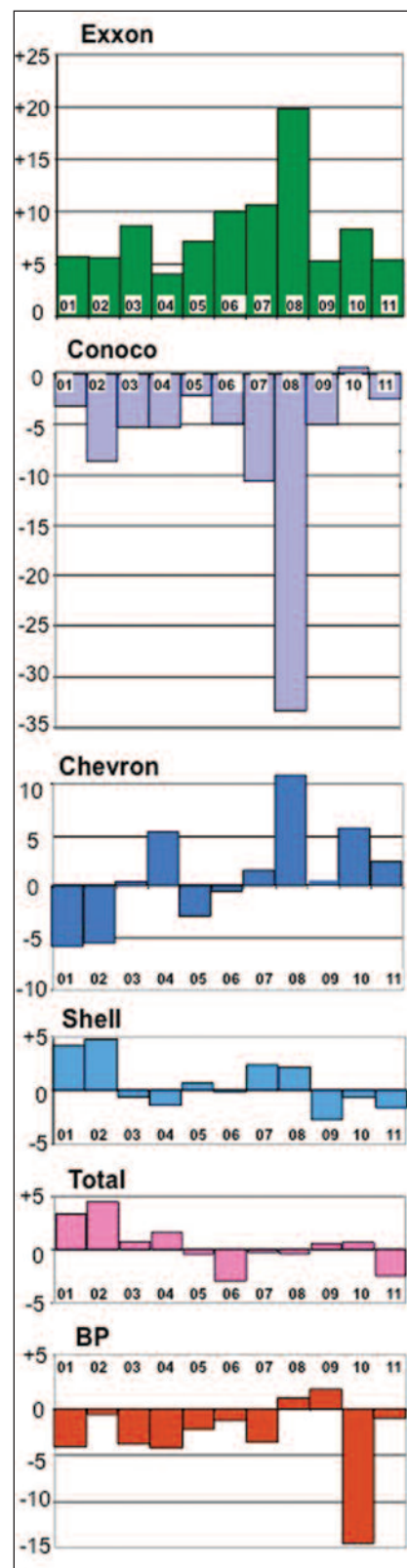


Figure 1: ROCE deviations from peer group average Source: Ruud Weijermars

corporate IQ: Moving the energy business from smart to genius: Executive guide to preventing costly crises. Springer, London.