



**Wood Mackenzie**

**The Empowerment Needed in  
Managing NOCs**

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5th September 2014

## It's not always easy being a national oil company

**With management dominated by retired bureaucrats, saddled with social obligations and beset by political interference, almost all have lagged well behind private sector competitors.**

Financial Times, August 2014

# Over the last 40 years of working with NOCs Wood Mackenzie has been exposed to a large varieties of NOC governance and operating models






**Define the different types of NOCs that operate in the E&P business today**

**Describe the challenges and competing pressures that NOCs operate under and the interrelationship between their goals and national requirements**

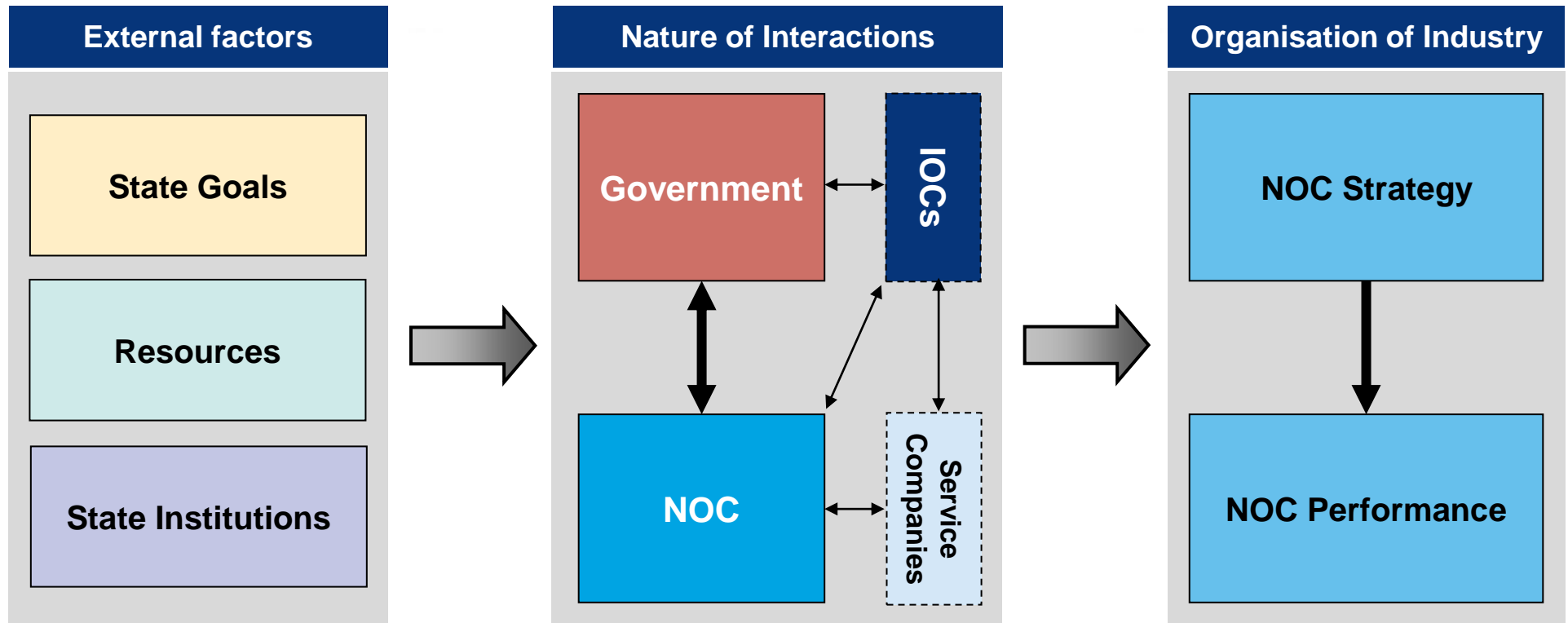
**Highlight the need for increasingly diverse skills sets and decision structures as the opportunity suit available increasingly points towards internationalising**

**Outline Wood Mackenzie's 8 step framework that empowers NOCs to evolve from standard NOC behaviours to world-class companies able to effectively partner and compete with the leading companies in the E&P business**

# Not all NOCs are created equal and there is not a one size fits all approach that can be applied

NOC Type	Example	Definition
“Major Resource Holders”		<ul style="list-style-type: none"> <li>› Large domestic resource</li> <li>› Not looking to internationalisation</li> </ul>
“Diversifiers”		<ul style="list-style-type: none"> <li>› Companies which have started the journey to internationalization</li> </ul>
“National Champions”		<ul style="list-style-type: none"> <li>› Leveraging domestic talents abroad</li> <li>› Focused skills and thematic areas</li> </ul>
“Advantaged Supply Seekers”		<ul style="list-style-type: none"> <li>› NOCs seeking resources to meet domestic demand</li> <li>› Foundation in domestic business</li> </ul>
“Supply Seekers”		<ul style="list-style-type: none"> <li>› NOC’s that lack a domestic resource and must internationalise</li> </ul>

# The specific needs and evolution of NOCs need to be recognised...

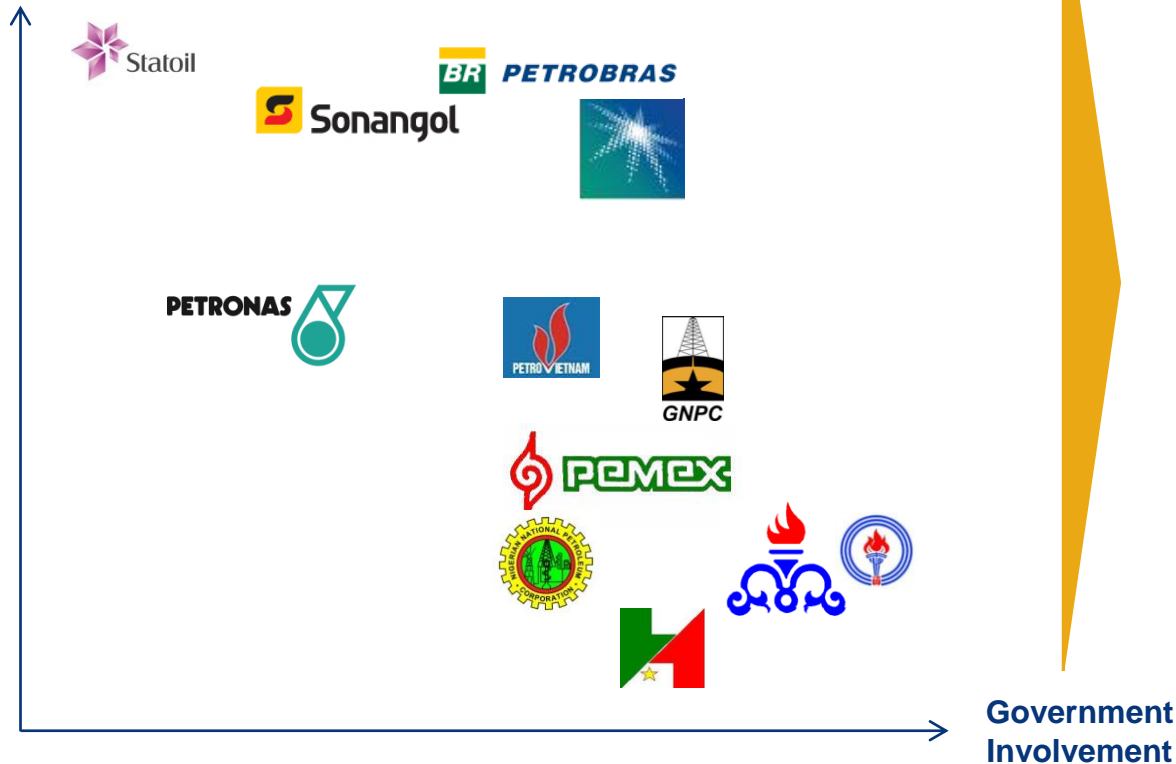


Source: *Oil and Governance*, 2012, Cambridge University Press

...as do the governance systems which interact with decisions, and their understanding of risk...

## Retention of Revenue vs. Government involvement

Retention of Revenue



- ◆ High-level of government involvement can lead to suboptimal decision making processes
- ◆ The key for retention of revenue is the autonomy of the NOC's to make operational decisions without politic interference

## ...and their goals and national requirements

### IOC objectives

- › Maximize and grow profits

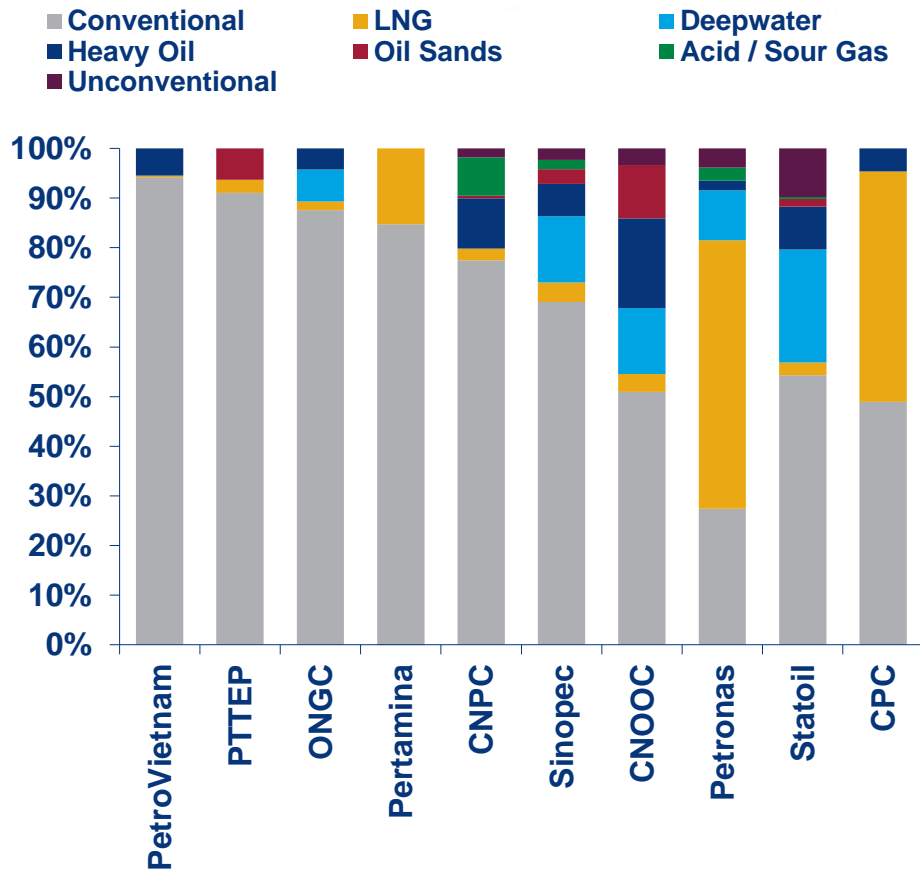
### Examples of NOC objectives

- › Maximize and grow profits
- › Provide major portion of government budget
- › Subsidize domestic fuel
- › Provide social programs / employment
- › Serve as government implementing agent
- › Provide for “energy security” of country
- › Pursue foreign policy aims of government
- › Extend lifetime of resources

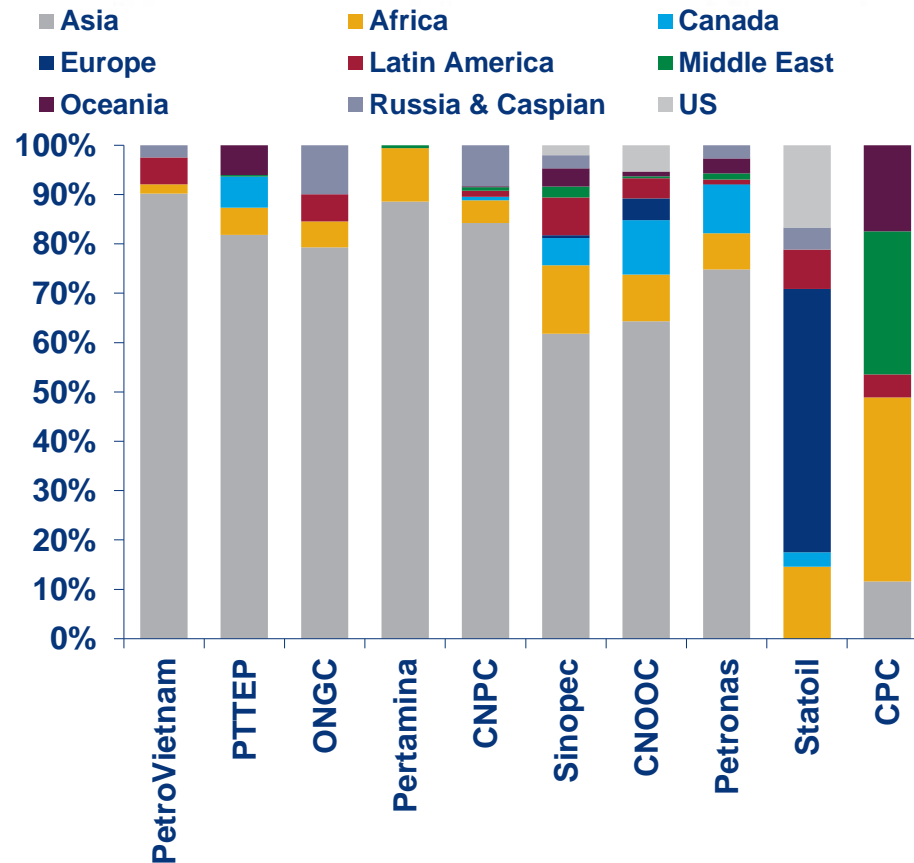
Source: *Oil and Governance, 2012, Cambridge University Press*

# Increasingly this requires broadening skills sets and a broader portfolio...managing risks and decisions has to be at the forefront

## NPV by resource theme



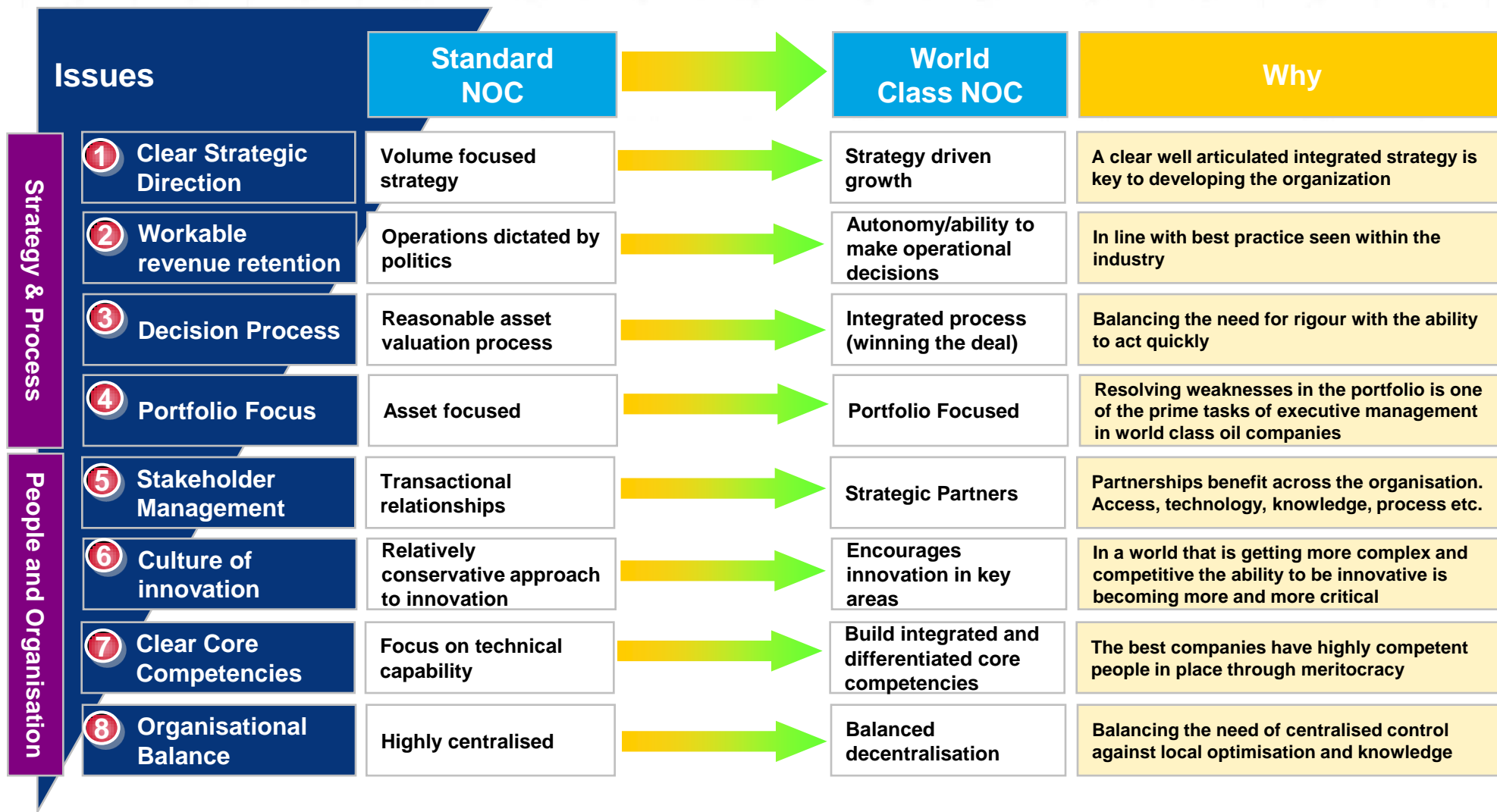
## NPV, 10 by geography



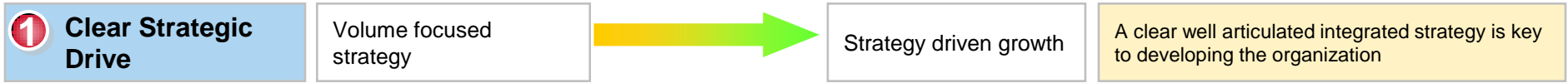
Source: Wood Mackenzie



# Underlying this is the need for NOCs to be empowered to make decisions in the global E&P market place



# World class companies drive growth through clear articulation of strategy



# Autonomy to make operational decisions is best practice

**2 Workable revenue retention**

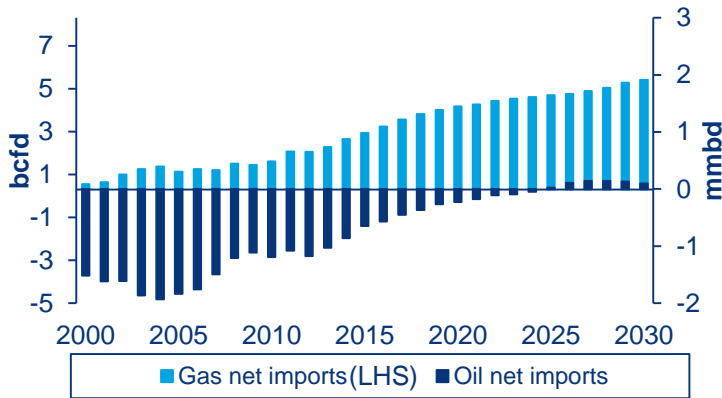
Operations dictated by politics



Autonomy/ability to make operational decisions

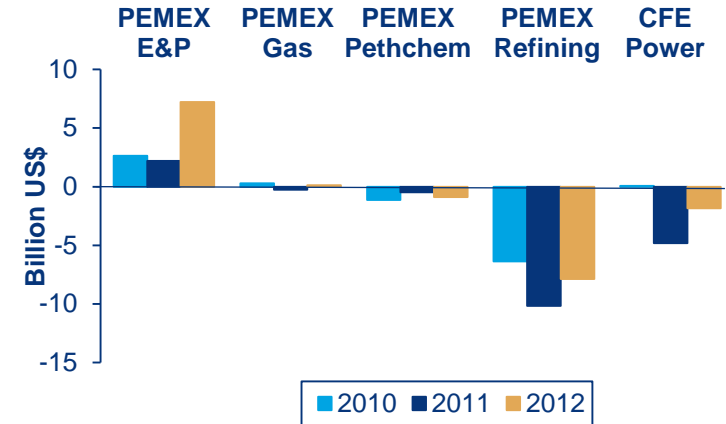
In line with best practice seen within the industry

## Energy balance



Source: Wood Mackenzie Energy Markets Service

## State-owned companies (NI)



Source: Pemex , CFE

Decline in oil & gas production

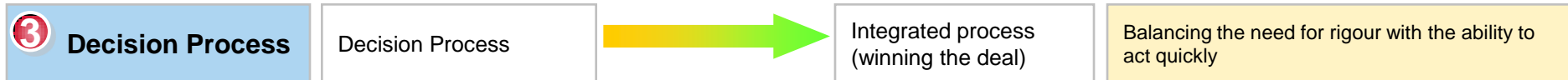
**PEMEX had a net loss of US\$13bn in 2013**

High fiscal dependency on oil revenues

**34% of the public budget depends on oil revenues**

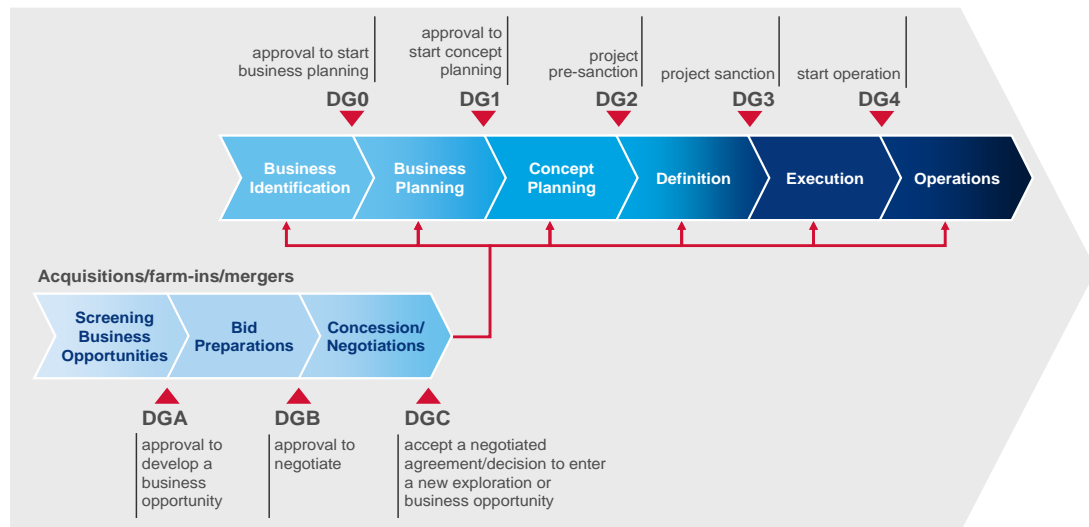
Unsustainability of PEMEX/CFE finances

# Leading NOC's have clear stage gate decision making processes, although the influence of senior management is often key to decision approval



## Structure of investment decision making process

*Illustrative*



- Process orientated, particularly around compliance
- Follows consistent process for value around stage gates
- Can serve as the foundation for all operations and the corner stone of organisation

# Leading companies have a clear understanding of their portfolio's strengths and weaknesses

## 4 Portfolio Focus

Asset focused



Portfolio Focused

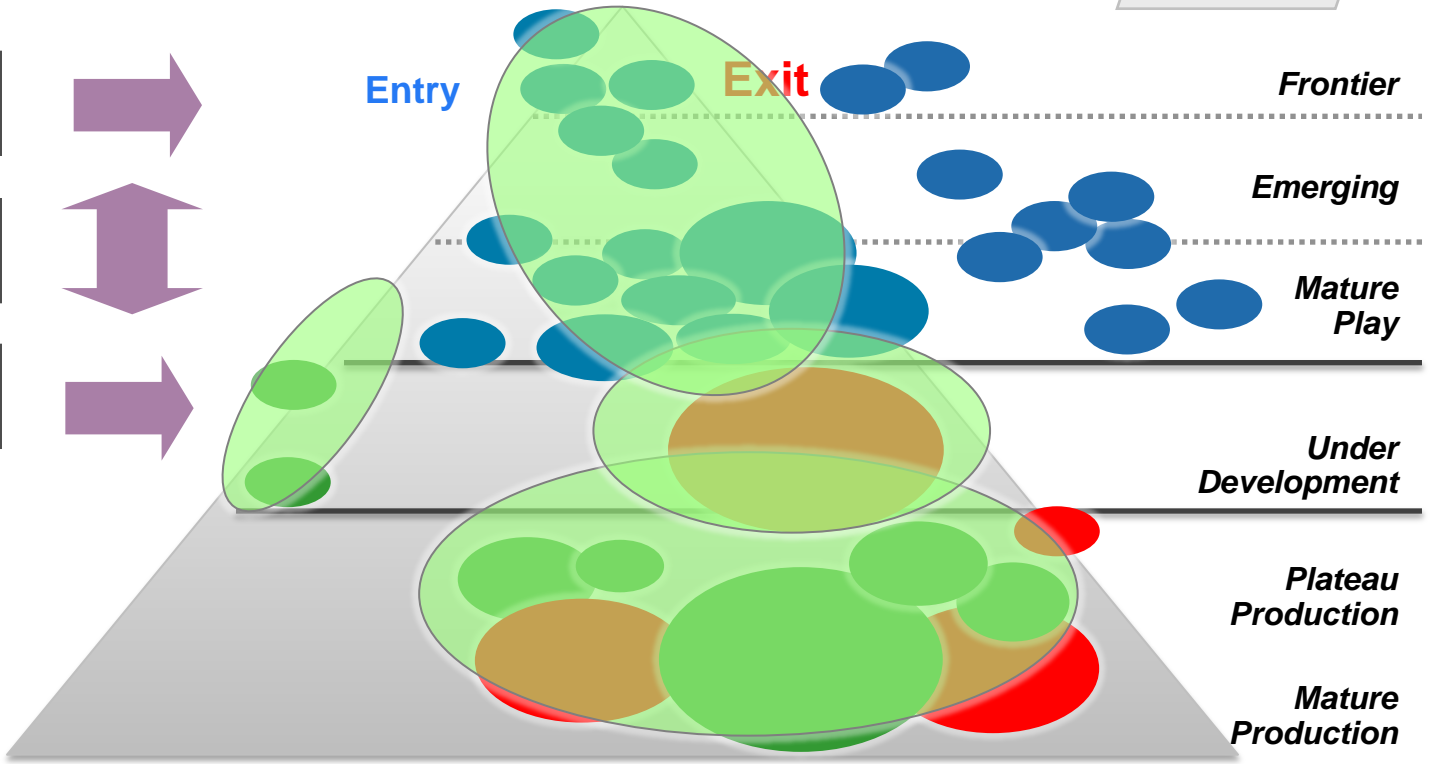
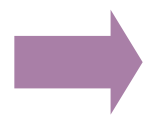
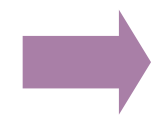
Resolving weaknesses in the portfolio is one of the prime tasks of executive management in world class oil companies

*Illustrative*

**SUSTAINABILITY.** Is there longer term reserves and production in portfolio

**BALANCE.** How diversified is the risk balance in the portfolio

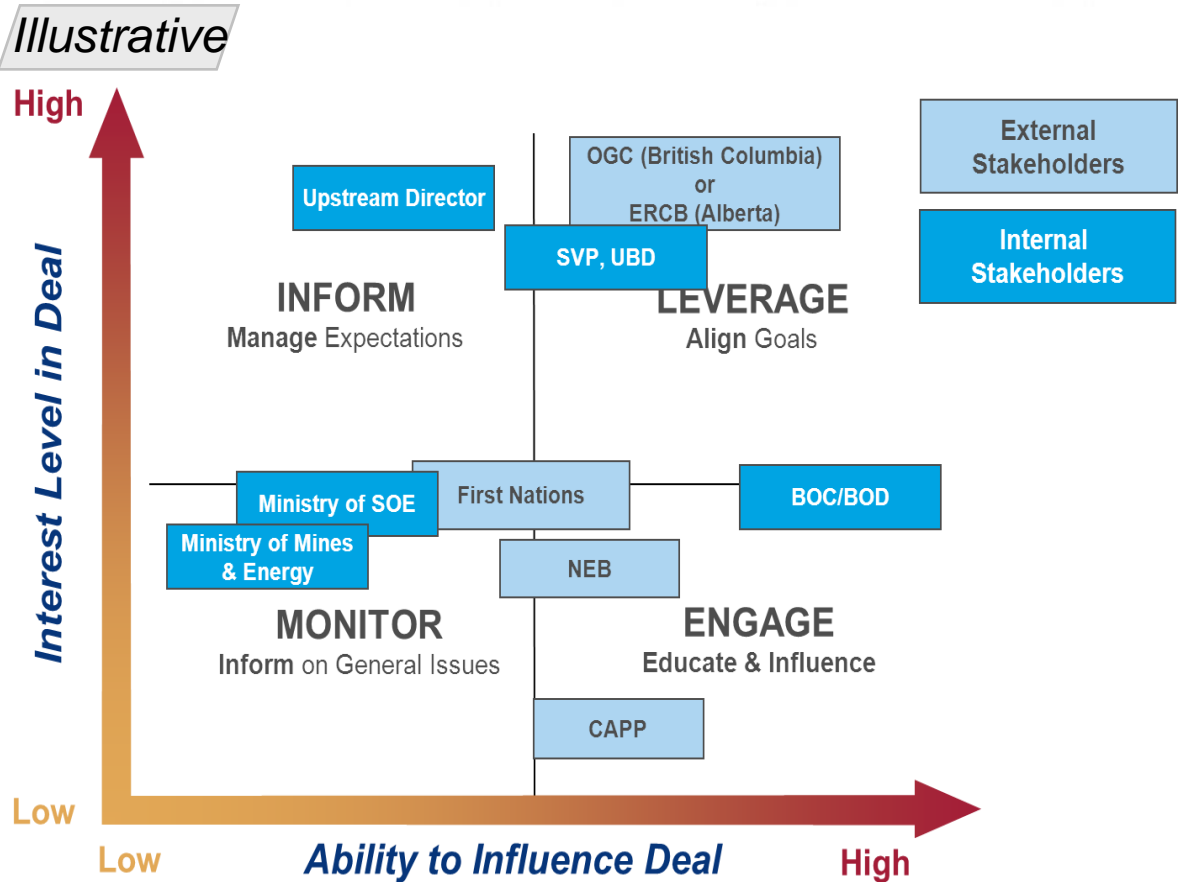
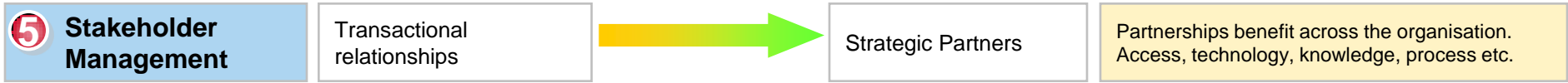
**PERFORMANCE.** How well have opportunities been monetized



**Time in Portfolio** →

- Mainly Oil
- Mainly Gas
- Under Exploration

# Managing stakeholders and partners is a key aspect to defining and reaching a shared business vision



# Creativity and innovation are key differentiators for world class companies

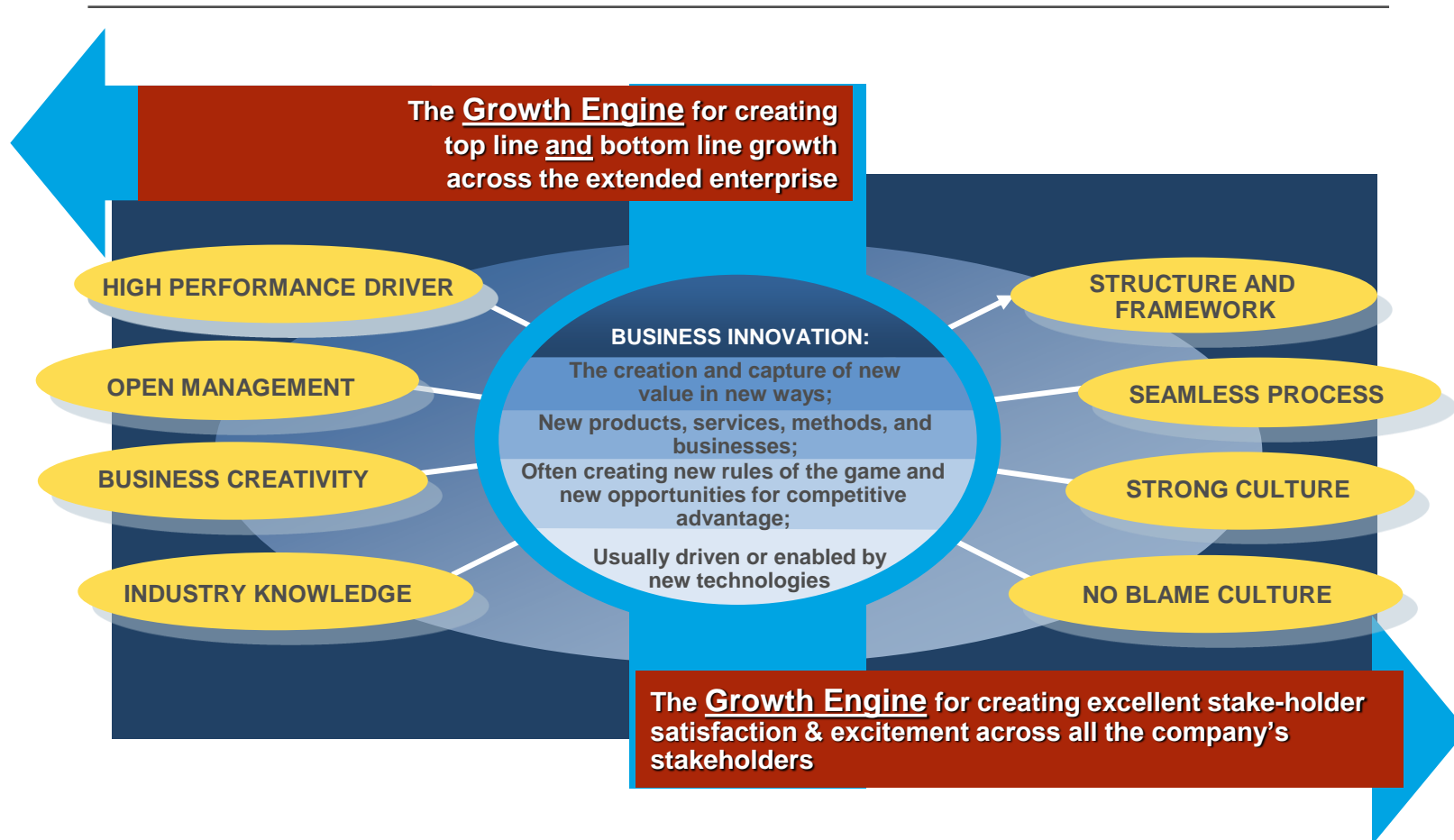
## 6 Culture of innovation

Relatively conservative approach to innovation



Encourages innovation in key areas

In a world that is getting more complex and competitive the ability to be innovative is becoming more and more critical



# Core competencies should provide a point of differentiation for a company

## 7 Clear Core Competencies

Focus on technical capability



Build integrated and differentiated core competencies

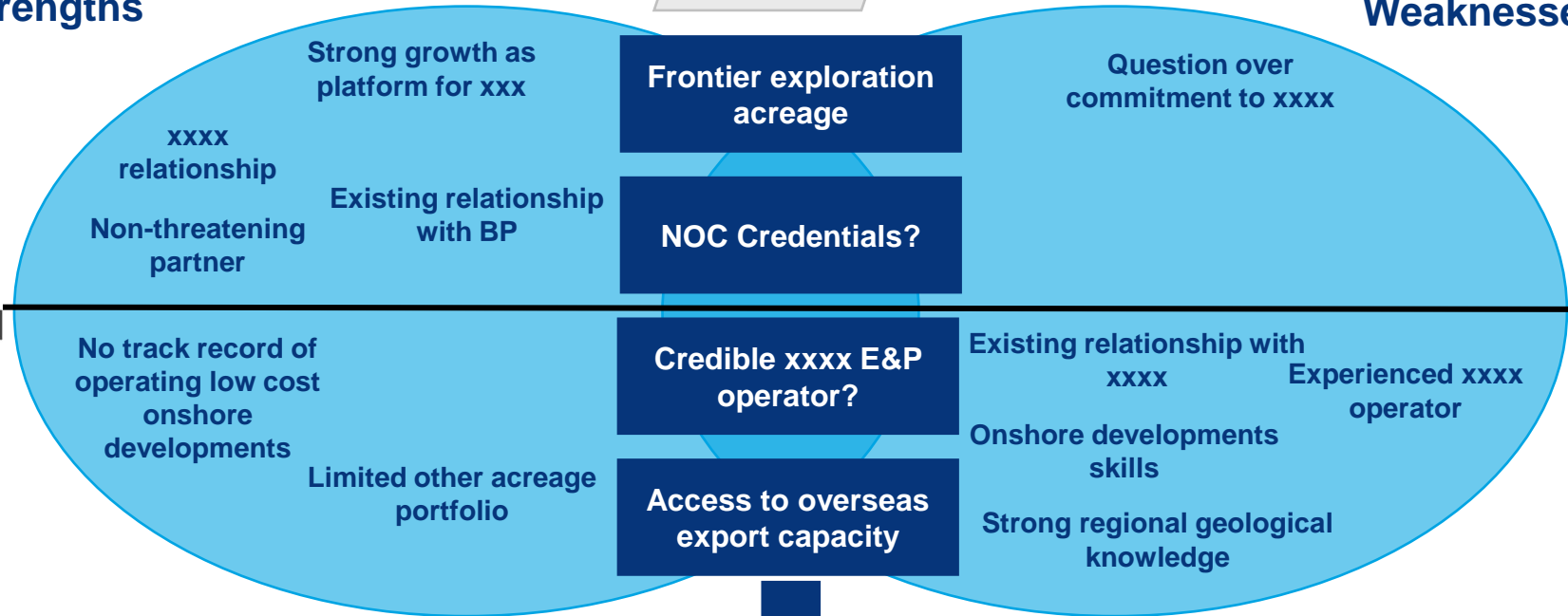
The best companies have highly competent people in place through meritocracy

As NOC's grow defining the capabilities required is a critical step in the process

*Illustrative*

**Strengths**

**Weaknesses**



**Weaknesses**

**Strengths**

**Complementarity**

Leverage BP E&P skills with Statoil NOC credentials to create advantaged E&P player in xxxx



# NOC's tend to be highly centralised, although a mechanism to incorporate local intelligence needs to be established

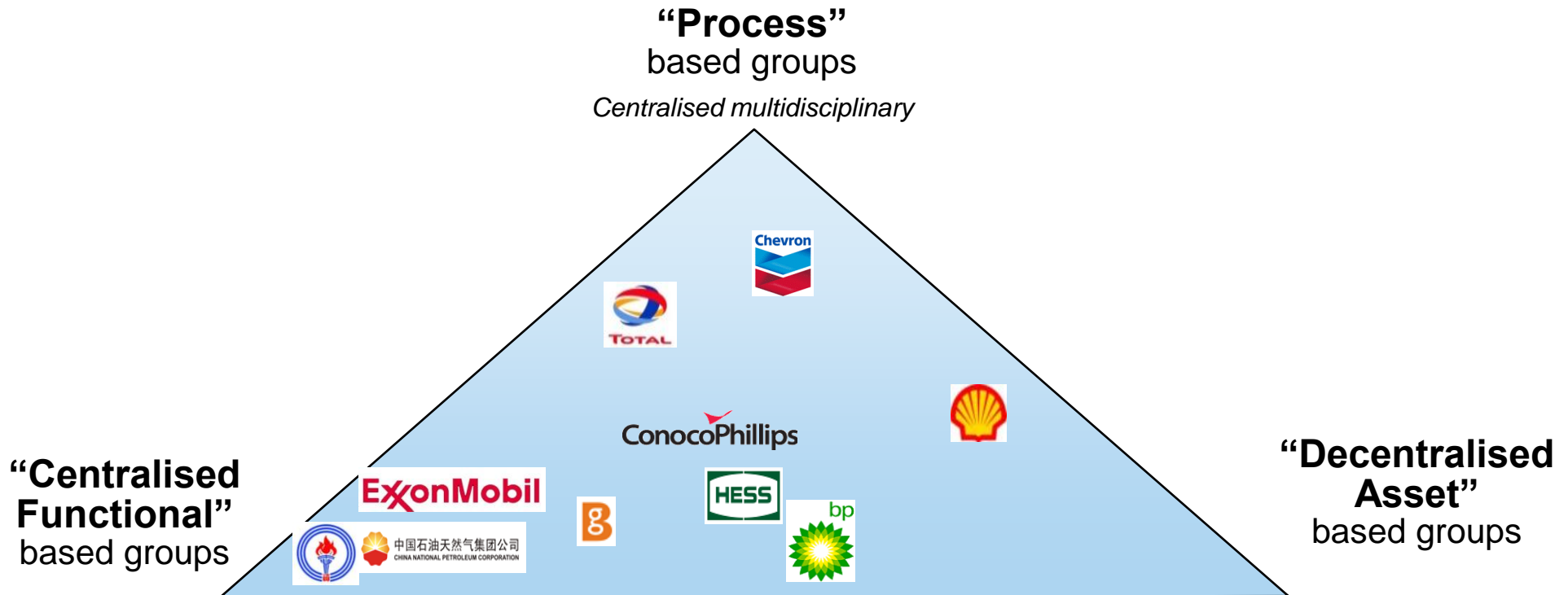
## 8 Organisational Balance

Focus on technical capability



Balanced decentralisation

Balancing the need of centralised control against local optimisation and knowledge



# Increasing internationalisation is a must to achieve these goals

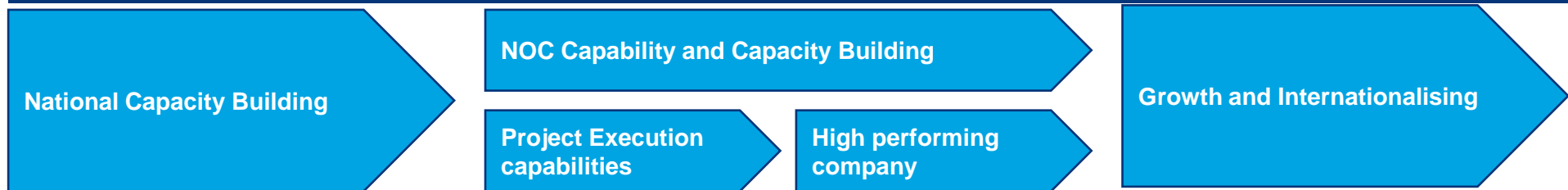
## Key elements for Internationalisation



## How Statoil Transformed



## Statoil's process to internationalisation



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