Strategic Management for Competitive Advantage
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Lecture 55
Developing Strategic Plan of a Major Oil Company - I

Welcome to the course Strategic Management for Competitive Advantage. We have covered the entire gamut of strategic management, from its basic concepts and environmental analysis. Then we have done the strategic formulations and generating alternatives, and selecting choices. After that, we have also covered the strategic implementation, which is of great importance, then after that, how to monitor control and evaluate the strategies, these four distinct phases we have covered. After that, we also covered strategic enablers.

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So, now, today, we will be discussing how to develop a strategic plan. This is a real-life how you know whatever you have learned so far. So, how will you implement it, and how will you use it in real life? Now, you are a strategist. You have been asked you develop a strategic plan for your organisation; how will you start that thing? We will be discussing this in today's lecture. So, today's lecture is about developing a strategic plan; I will take a real-life case of developing a strategic plan for a major oil company, and we will talk about it.

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The concepts that will be covered in this lecture are the different phases of how you develop a strategic plan. So, for this first session, we have divided it into three sessions. First sessions, we will be talking about how to start with that is, strategic directions, mission, and vision statements of the organisation because your strategic plan will flow from here; what the strategic directions have been given to you, then you have to do the situation analysis, then you have to develop strategic objectives.

After that, we will be coming to the next phases. So, these next phases we will be talking about in future sessions. So, we will be starting with these three. This is the environmental analysis and all we will be covering.

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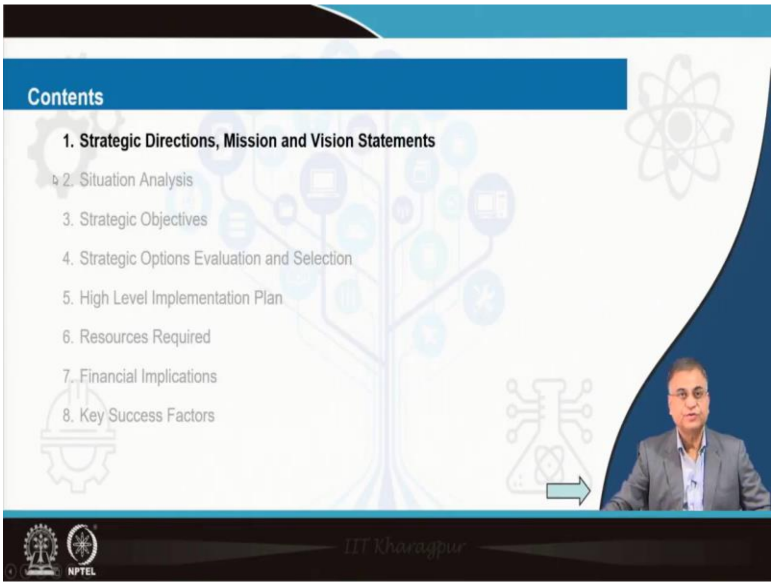

So, to start with, first, we will be talking about the strategic directions, mission and vision statements. From there only your strategy flows which is the source of your data source inputs that you will be developing your strategic plan and the directions in which your organisation is trying to go. So, this is very important.

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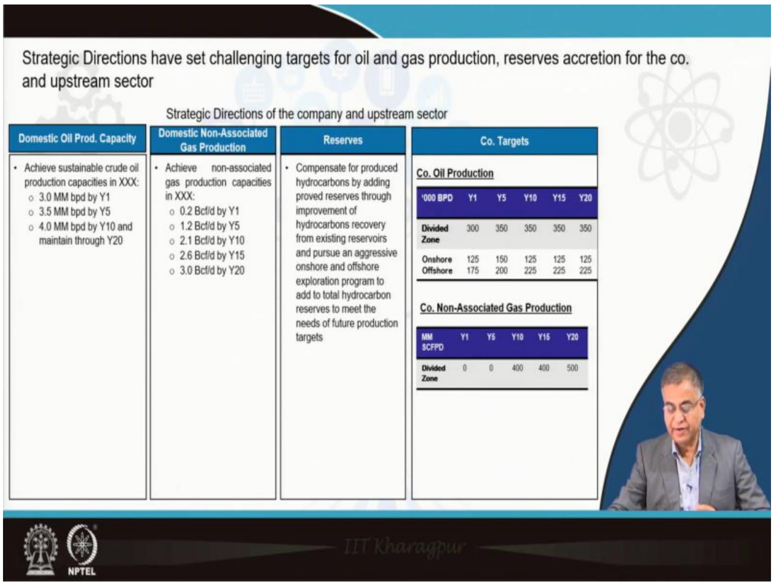

So, for a strategic plan, what happens that strategic before strategic directions are given by the epics body of the organisations? These epics body for a multinational maybe the multinational headquarters, they will be deciding it for, say PSU, large PSU and all it will be say it may come from the concerned ministry since it is an oil company it may come from the Ministry of oil and that is also dependent on the NITI Aayog that what is the plan of the country they will be going in.

So, that is for this company; this is an international company. It is not in India. So, strategic directions have been given a set of challenging targets for oil and gas productions and reserves salivation for the company that is part of the entire upstream. Upstream means exploration and production of oil.

So, the domestic oil production the target has been given, say, achieve a sustainable crude oil production capability is 3 million barrels per day in year 1, and by year 5, we have to increase it to 3.5 million barrels per day and year 10 it has to be increased to 4 million barrels per day and maintain it through up to the next 20 years with the next 10 years that is year 20. So, this is a very challenging task for a for that country small country. So, this is the domestic oil production capacity.

Now, domestic gas production capacity has been given from the current production capacity of 0.2 billion cubic feet per day from year 1 to 1.2 billion cubic feet per day by year 5 to 2.6 in year 15 and 3 billion cubic feet per day in year 20 and add the reserves you have to when you are depleting the oil and gas by producing you have to add to it, how do you add oil and gas because it is a natural process.

So, the mandate is to give an equal amount of oil and gas reserves you must create. So, how will you create it? There are two ways. One is the new oil and gas discovery which is a new field that is very uncertain is very high, and another is the existing reserves. You improve the recovery factor to recover more from there because oil and gas, when it you exploit it, you can exploit for primary exploitation technique will be around to maximum 15 to 20 per cent oil can do it.

Then you go for a secondary technique of production; that secondary technique means you have to do water flooding or polymer flooding, all those techniques or the lifting with the pumps and all. All those can give you 30 per cent and all. Nowadays, the technology in the world is having now at most, you can get 40 to 42 per cent to rest you cannot work with the existing technology, you cannot lift it, and if you lift it will be a huge cost. So, economically not commercially, not maybe viable. So, the improve that technique for recovery factor give you the reserves a creation or addition.

Now, this is for dominantly two companies. So, the organisations have one company for domestic production. Another company have a subsidiary company, and ich is for joint venture productions like oil field goes beyond one country to another because the boundary of one country is on the surface. Still, the oil field is the subsurface, and in the sub-surface, they can stage from one country to another country. So, that is the there may be many disputes for that.

So, some countries do what they do. So, those joint failures, they develop jointly form a joint venture and exploit it, and this company has such two big joint ventures. One is for onshore oil exploration and production. Another is for offshore oil and gas production, and this is the target given for the strategic directions given for them to make 350,000 barrels per day you have to produce. This is the strategic direction given.

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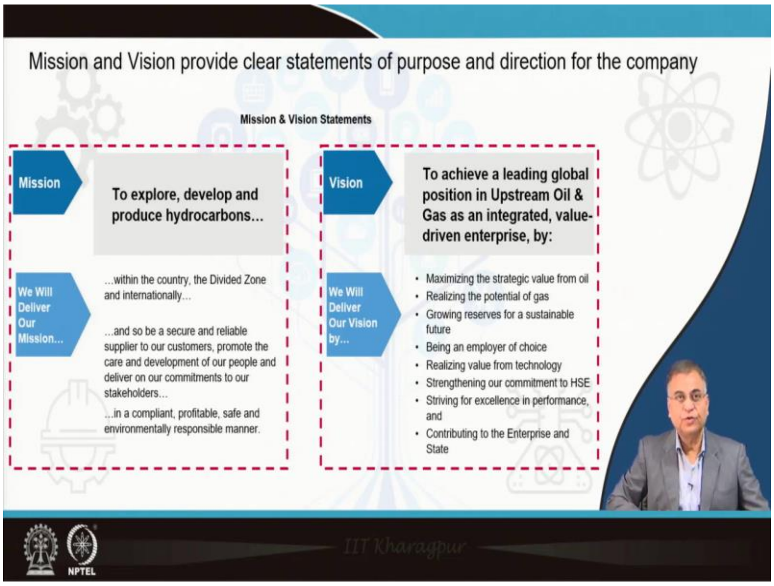

So, how do you go about developing the strategy for this? So, you have to go for the mission and vision statements that provide a clear purpose and direction of the company; that mission and vision come from the top. So, how will you be proceeding, what is the purpose, and what is the direction the company should go? So, the mission statements of this company say to explore, develop and produce hydrocarbons in the country and joint ventures and all.

So, we will deliver our visions. How will we deliver? While within the country the divided zone, the divided zone is the joint ventures zones common field and internationally, they can also bid for foreign fields. All can go for it, but these are these internationally are minuscule compared to their domestic production capacity and be a secular and reliable supplier of our customers, promote the care and development of our people and deliver on our communities to our stakeholders in a compliant, profitable, safe and environmentally responsible manner.

So, all these things you have to be whatever had been said. You have to be compliant of all rules and regulations; you have to be in an economically profitable, safe and environmentally responsible manner. You have to look up the HSE part of it. So, all these will be embedded in your work pack activities. So, this has to be looked into.

Its vision statement of it says that to achieve a leading global position in upstream oil and gas in an integrated value-driven enterprise that means you have to be a global leader of this, you have to be in production, and this company produces so much. It is around, says, 8 per cent of the global production and all they produce. So, how will they deliver it? These are the ways to deliver it; the vision statement is very clear, like maximising the strategic value from oil, realising gas potential, and growing reserves for a sustainable future.

So, all these visions come from those statements' strategic directions, being an employee of choice realising value from technology. So, these are the ways you deliver your vision statement that has been categorised and very specifically mentioned. So, you have to follow this path to grow further in the international market, growth in the domestic market and become a reliable supplier of energy to the global communities. So, mission and vision statements are there.

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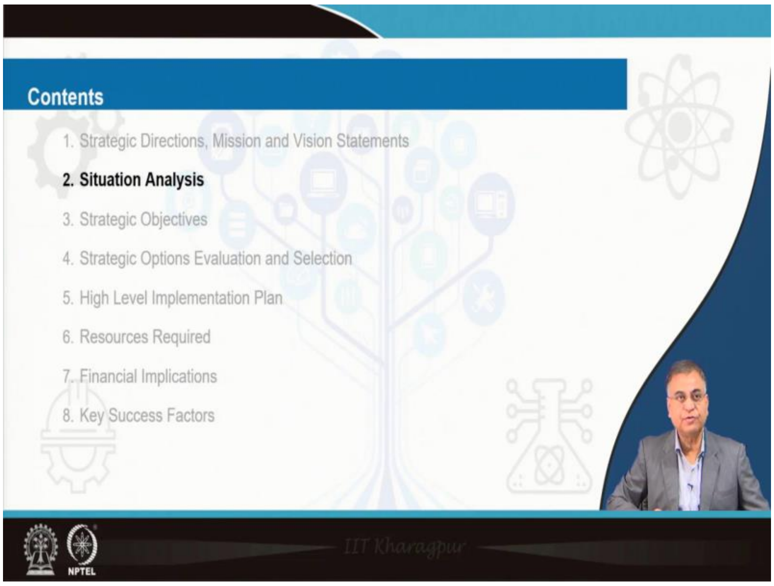

So, how do you go about it? Now, the next step is you do situational analysis, which is the foundation that is the first step, second step, and first step with the strategic directions, mission and vision. The second step is carrying out your situation analogy, which is nothing but what we have learned before in environmental analysis. So, what is this situational analysis?

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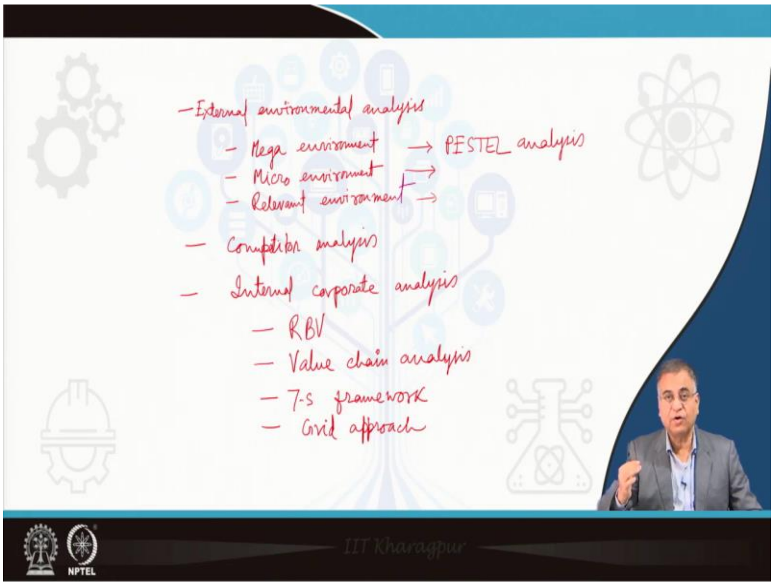

In this situational analysis, I will discuss what you do to make the situation and analysis; what you do is first the external you do an external environmental analysis. So, what are the components of doing external environmental analysis? We have learnt it before. Those are the first things; the external first thing is the mega environment; you study the mega environment, then what you do, the microenvironment you all have learnt it, then you do the relevant environment.

So, mega environment, what do you do? You study the political, economic, social, technological, environmental, and legal. So, this is the mega environmental, that is, you do the PESTEL analysis; you remember that you do the PESTEL analysis. Then these microenvironments are what you do, microenvironment you do suppliers intermediated is, then regulators. Competitors, your financial Institute's how it is easy to get loans and the terms and conditions. Availability of skilled manpower then the industrial relations climate all you have studied. So, all those things you study for microenvironment.

The relevant environment is what we have talked about. Suppose you are in a cement industry your is this microenvironment for that is the task environment that is some specific steel industry, IT industry, banking industry, the financial industry? So, the automobile industry has a different relevant environment, but for the say reliance ITC we have talked about, they are in different industries, different things. So, like ITC is in the hotel industry, it is in the tobacco industry, it is in paper and pulp, it is in consumer products. So, they have different relevant they will go for the relevant environment.

So, external environmental analysis. Then there is competitors analysis. You have to do competitor analysis. Then you do what, internal corporate analysis, so, internal corporate analysis what you do, you do the RBV resource-based one is the resource-based value of the firm the resource-based value. Then you do the value chain analysis. All you do for the internal corporate analysis.

Then there are many other factors, say the 7 S framework, that we do the 7 S framework. Then there are the grid approach and the sub-grid approach then, there are baits and blades, and all those things are there. So, why do we do all these things? For the external environmental analysis external, we do it to know the opportunities and threats in the external environment, and for internal corporate analysis, we do it for what? To know your strengths and weaknesses. So, that you can take the, how you take the competitive advantage and weaknesses you want to how to overcome these all these we know.

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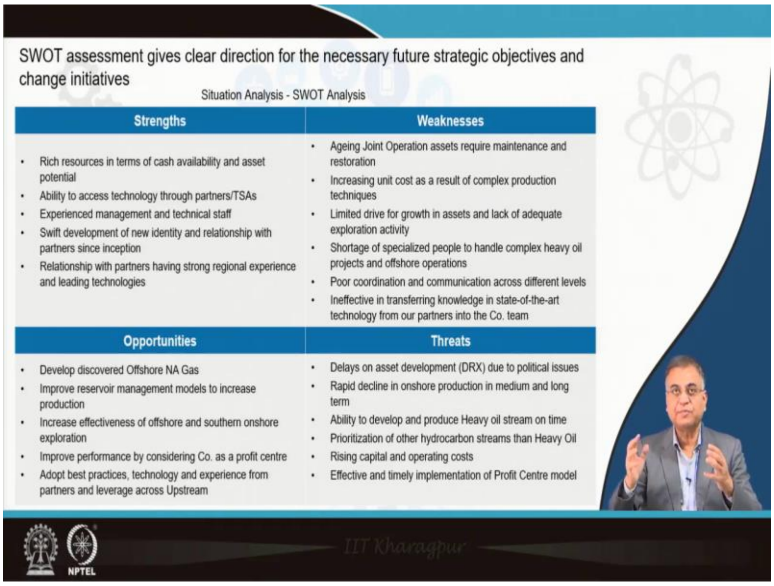

So, they do a SWOT analysis; situation analysis is the SWOT analysis assessment that gives the organisation a clear direction for the necessary future objectives and changes initiatives, how the company should give. So, you come to know all these your strengths and weaknesses from internal corporate analysis, then opportunities and threats from the external corporate analysis.

For these organisations, these are the top strengths, say rich resources in terms of cash availability and asset potential. The asset is oil and gas. The ability to access technology through partners' technology, that agreement service agreements and all the partners have there is the joint venture partner is one of the leading oil companies in the world who are technologically superior that capability.

Then experience management and technical staff, swift development of new identity and relationships with partners. Anyway, they found out there you list your top five strengths, but you have a list of your strengths and weaknesses. But for strategic purposes, you limit it to the first 5 or 6 and others will be your backup. Suppose you need a future; you do that.

Similarly, weaknesses, weaknesses are ageing, or joint operation assets require maintenance and restoration these oil fields are ageing. So, it requires huge investment for maintenance and all because production decreases with the age of the oil field.

Similarly, the opportunities are developed discovered offshore non-associated gas, gases have been discovered, but that field has to be developed. All those things take a huge investment and time consumed time. Improved reserve management model to increase production. These are the opportunities five opportunities this is enlisted.

Similarly, threats, what are the threats? Threats are delays in asset development due to political issues because it is a joint venture, different countries, lot of political issues there. Then rapid decline in onshore production, when the medium and long term is the ageing field, are coming down production. Ability to develop and produce heavy oil streams on time.

So, these are some of the threats you do and based on this; you will develop your plan for all this. So, based on this what you do, this situation analysis will help you to develop your strategic objectives.

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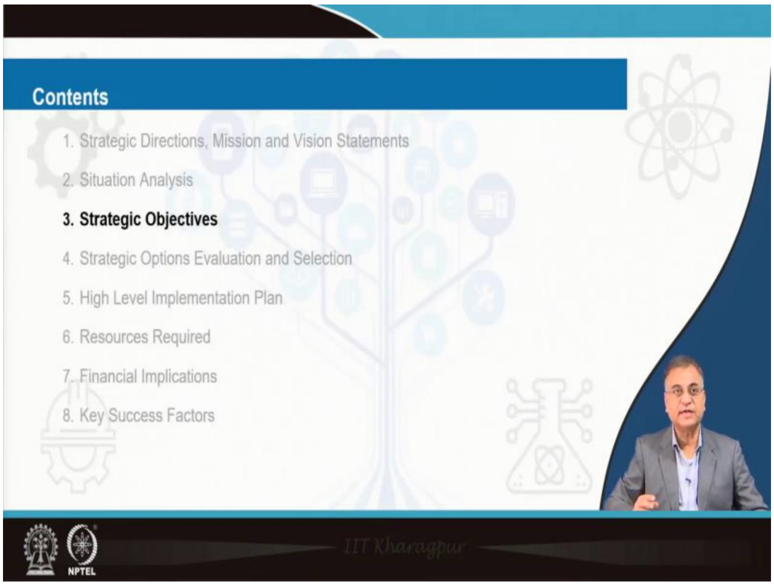

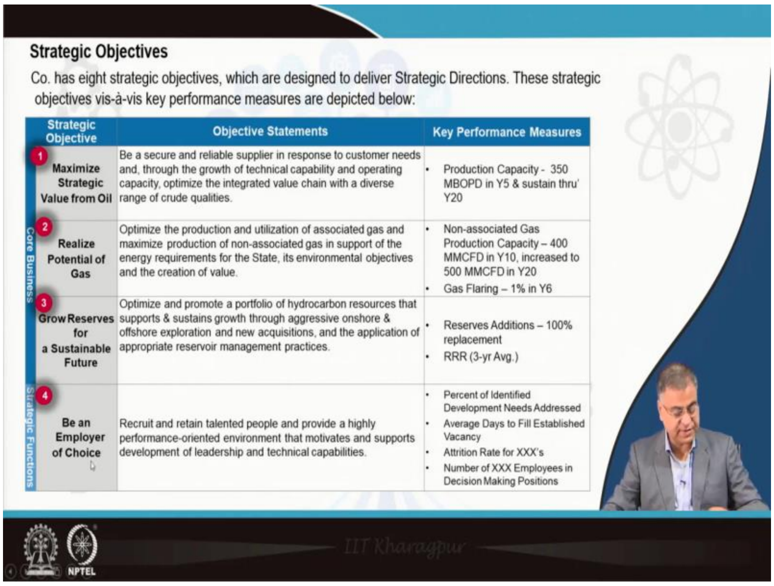

What is the strategy? So, next, we will go for the basis for the strategic objectives what will be of your company. So, these companies then, based on these, develop strategic company objectives. The company has identified 8 strategic objectives, which are designed to deliver your strategic directions that are 3 million barrels per day that have to be fulfilled.

And I think that 5 billion cubic feet of gas and these strategic objectives vis a vie their key performance measures are shown here. There are 8 strategic objectives. Out of that, these three are the core business related, maximise strategic value from oil, realise the potential of gas, and grow reserve for a sustainable future; these are your core businesses for attaining strategic directions. This third one is strategic directions was there; you have to grow your reserves 100 per cent of whatever you produce, that amount you have to grow. So, these are the core businesses.

And what are the objective statements given here say to maximise strategic value from oil? I will describe one, say, be a secure and reliable supplier in response to customer needs and, through the growth of technology, capability and operating capacity, optimise integrated value chain with a diverse range of crude qualities because you get different values for different types of crudes and all.

So, if you can have a higher value say, higher calorific values of crude, you get more. So, correspondingly you develop your KPMs, key performance measures, that is production capacity. The target is 350,000 barrels of oil per day from year 5 and sustaining it through year 20. This is a challenging task.

Similarly, gas is the statement and gas production should be 400 million cubic feet per day in year 10 and increase to 500 million cubic feet per day in year 20 and gas flaring has to be decreased to 1 per cent in year 6; this gas flaring means these are gases at presently, that time it was flaring was around 60 to 70 per cent, and that is that flaring has to be reduced to 1 per cent, 1 per cent is the technical flaring because you cannot make it completely 0 that is a safety hazard. So, this has to be done.

So similarly, reserves recreation says additions have to be 100 per cent. Then the other strategic objectives are, say these are strategic functional objectives, be an employer of choice.

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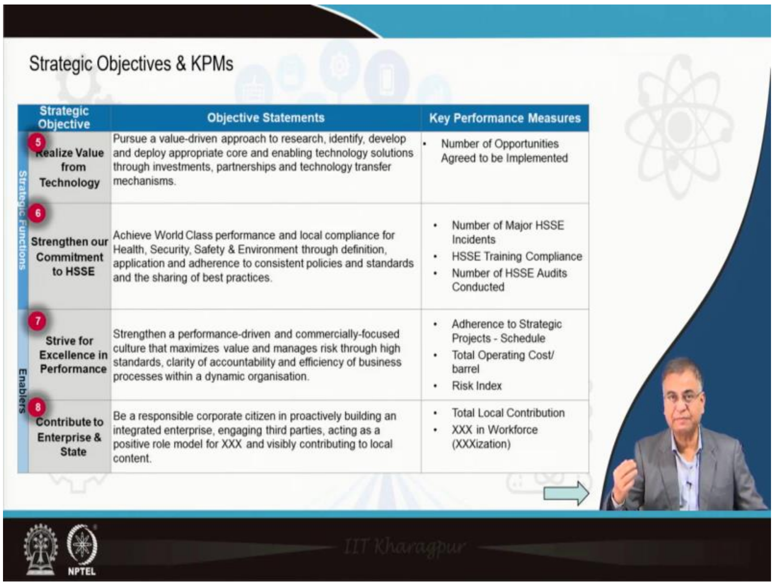

Then you realise value from technology; these are the pursue a value-driven approach to research, identity, develop and deploy appropriate core and enabling technology solutions through investments and all. Now, the KPMs are several opportunities agreed to be implemented, then there are strengthening commitment to Health Safety Environment and all.

So, these are the statements and the number of major HSSEs these are the KPMs, corresponding KPMs you can go through, the number of HSSE audits conducted, training conducted, and incidents that happened HSSE all. Then these three are the strategic functional means your functional activities you improve upon it these because when you are increasing your oil and gas production, your internal process also has to be improved.

So, through these, you improve it; these are your strategic functional objectives. And these two are enablers; strategic enablers strive for excellence in performance; that is, strategy strengthens a performance-driven and commercially focused culture that maximises value and manages task risk through high standard clarity and accountability. And these are the corresponding key performance measures. Risk index in total operating cost per barrel and adherence to strategic projects schedule will ensure that you strive for excellence in purpose performance.

Then the last enabler says that contributing to enterprise upstate is being a responsible corporate citizen in proactively building an integrated enterprise, engaging third parties acting as a positive role model for the country, and this is nothing but CSR activities your corporate social responsibility, total contribution for CSR, then your nationalisation how many national people are there in the workforce, so, these are the enablers, you improve it.

So, you can notice these 8 strategic objective flows from your vision statement. So, these are you build up your strategic objectives. And these strategic objectives, you can see these KPMs objectives have key performance measures. These KPMs are linked with your balanced scorecard; you can learn a balanced scorecard. So, those four perspectives and all you can link with the balanced scorecard and balanced scorecard are now linked with the strategy map.

So, you can see from the strategic objectives that you develop your key performance measures, and these key performance measures are linked with your balanced scorecard and strategy map. So, there is a direct you can link your strategy map and balanced scorecards with your strategic objectives. So, you have a strategic objective next step; what will you do? You will be making formulating a strategic plan.

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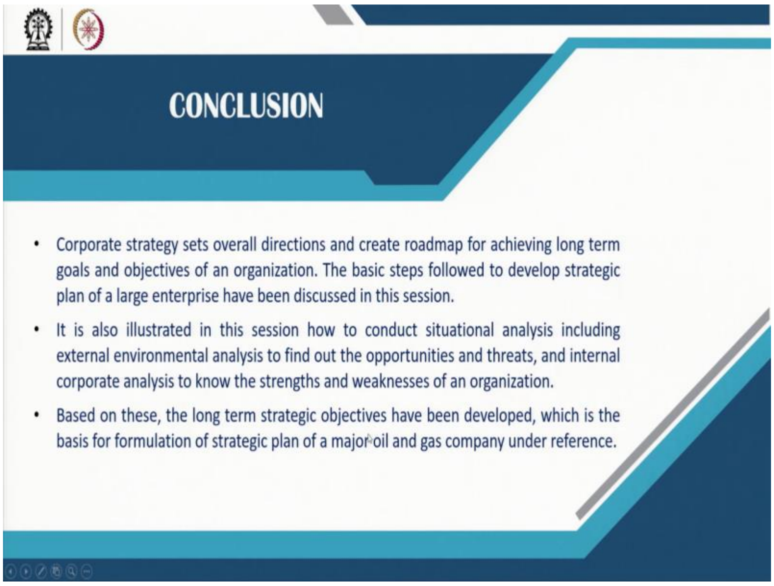

So, before that, we will conclude this session. With this what we have learned, we learned that corporate strategy sets overall directions and create a roadmap for achieving the long-term goals and objectives of an organisation. The basic steps followed to develop a strategic plan of a large enterprise have been discussed in these sessions.

Then, it is also illustrated in this session how to conduct a situation analysis, including external environmental analysis to find out the opportunities and threats and internal corporate analysis to know the strengths and weakness of the organisation. Then, based on this, the long-term strategic objectives have been developed, which is the basis for formulating the strategic plan of a major oil and gas company under reference.

So, in the next session, we will be discussing the formulation of a strategic plan which is brought from the long-term strategic objectives of the organisation.

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So, these are some of the references. These books we have already gone through these in your earlier modules and all. These books are good books you should refer. And in the next session, we will discuss formulating a strategy. Thank you very much for attending.