Statoil: 40years of Strategic Energy and Public Benefit Management

Cecilia A. Wandiga

Sustainability and Empowerment Catalyst

Business Operations Strategy and Public Policy Consultant

March 31, 2014

San Diego, CA

CWandiga@gmail.com

412-607-3300

Twitter: @CWandiga

www.linkedin.com/in/ceciliawandiga

http://businessandpublicpolicy.wordpress.com

Introduction

As a National Oil Company (NOC), Norwegian Statoil is a state owned business in which the people of Norway have a 67% controlling stake (Statoil, 2012, The Statoil Share). The company started as a government enterprise and went public 10 years ago. Statoil was created to service a national strategic goal: ensure that the benefits obtained from the Norwegian Continental Shelf (NCS) are shared by the entire country and not a few individuals. In addition to business profitability, the company priorities include safety, environmental protection, and, the advancement of Norwegian policy in domestic and international markets. Strategy is formulated with the participation of multiple stakeholders and is continuously adapted in order to maintain a competitive advantage in resource availability and value proposition. The concept of a NOC is not new or unique to Norway. According to The World Bank's Oil, Gas, Mining Unit (2013), NOCs control roughly 90% of the world's oil and gas reserves which amounts to approximately 75% of global oil and gas production. Statoil's innovation stems from its use of technology and knowledge to "solve the energy problems of the future" (Statoil, 2012, Technology and Innovation). Prudent management and social responsibility have been the driving force behind the company's success.

Statoil's History

Statoil was founded in 1971 in response to the discovery of significant hydrocarbon reserves on Norway's Continental Shelf (Gordon & Stenvoll, 2007, p. 19-22). The Norwegian government recognized it had to establish a favorable position with respect to energy generation and wealth distribution while also planning for continued viability after hydrocarbon reserve depletion. Statoil also had to maintain a competitive position with respect to private energy providers in Norway as well as to serve as a mechanism for incentivizing market improvements without undercutting price or performance dynamics. Norway specifically wanted to avoid the inflationary crisis experienced by Holland in its attempt to expand its petroleum industry. During the summer, Norway's Labour Party put forth a policy doctrine known as the "10 Oil Commandments" (Gordon & Stenvoll, 2007, p. 21). This doctrine established a 30 year framework to govern macro-economic policy, the export of hydrocarbons, and the formation of a 100% state owned company that would develop the domestic oil industry. In 1972, a Norwegian Petroleum Directory was created to govern the regulation of the industry with Statoil having authority over the state's commercial interests and the Ministry of Industry over licensing (Gordon & Stenvoll, 2007, p. 22). The Labour Party's approach focused on value creation and shaping the industry thereby making it a prime example of *Blue Ocean Strategy* (*Value Innovation*) as described by Kim & Mauborgne (2004). Given the nascence of the Norwegian oil industry, there was no attempt to serve a new mass market at a lower price point or to displace existing (incumbent) firms already supplying energy in Norway. As a result, it would be difficult to characterize the strategy used in Statoil's formation as *Disruptive Innovation* (Christensen & Overdorf, 2000).

From 1971 to 1981, strategy played a critical role in Statoil's growth. Porter (1996 & 2013) maintains that strategy, while predicated on operational excellence and market positioning, is not about servicing all customers in a market but rather is about deciding on what unique value a company will provide to a well-defined type of customer. It must also enable a company to readily adapt to the 5 major competitive forces: 1. the threat of new entrants; 2. bargaining power of buyers; 3. the threat of substitute products or services; 4. bargaining power of suppliers; 5.

rivalry among existing competitors (Porter, 2008). Statoil's unique position is to guarantee energy wealth distribution for the people of Norway. In order to ensure early survival until 1985, government policy stipulated that Statoil had to have 50% ownership in all developed fields. This enabled Statoil to significantly lower costs because it did not need to maintain a large exploratory budget or staff (Gordon & Stenvoll, 2007, p. 3 & 23). Initially focusing on developed fields also greatly reduced operational risk. After 1985, Statoil no longer had 50% ownership in developed fields and, although it still managed Norway's reserves, its ownership stake was reduced to 12% (Gordon & Stenvoll, 2007, p. 27). Rather than depend on the security afforded by government authority and protection, the company has also focused on responding to competitive pressure. Between 1981 and 2001, Statoil leveraged the profits from its equity positions to expand both domestically and abroad. It began operating fields, expanded engineering capacity, undertook construction projects, formed strategic alliances (including with British Petroleum aka BP) and learned how to control political power through its operations and locations. Preparations for privatization began in 1990 and the company became publicly traded in 2001. In 2007, Statoil was merged with national gas company Norsk Hydro. This was in part a response to a growing global energy shift towards liquid natural gas. Today, Statoil employs 20,186 (10.1%) of Norway's oil and gas workers while operating in 33 countries and 2 territories (Statoil, 2012, CEO statement; Annual Report). The company is valued at 21.5 billion NOK (US $3.5 billion) and actively explores alternatives to carbon-based fuels and "life after oil." (Statoil, 2012, CEO statement; The Statoil Share). Five year average net profit margin as of December 2012 was 8.10% which is somewhat close to the industry margin of 10.20% but not as strong at the sector margin of 11.80% Interestingly, 5 year gross margins of 50.71% were above both industry 49.41% and sector 34.35% Management effectiveness is strong with 5 year average Return on Equity at 21.34% which is above industry at 17.16% but below sector at 23.65% Five year average Return on Investment of 10.08% is slightly below industry (13.10%) and below sector (18.64%). Five year average Return on Assets is relatively better (Statoil 7.74%, industry 11.05%, sector 13.68%). (Statoil, 2012, December 14).

Strategic Energy and Wealth Management

Statoil's vision is "Crossing Energy Frontiers" (Statoil, 2012, Annual Report). This statement is timeless, which includes futuristic, and it explains what the company is doing but it lacks clarity on why (Capella University (Ed.), 2013, p. 21). The mission statement is written with a present time focus which clearly articulates what the company does, who it serves and why it exists along with the products and services provided (Capella University (Ed.), 2013, p. 24):

> "Statoil is an integrated, technology-based international energy company primarily focused on upstream oil and gas operations. We are committed to meeting world energy needs in a responsible manner, applying technology and creating innovative solutions" (Statoil, 2012, Annual Report).

With a 67% ownership stake, Statoil's values (Courageous, Open, Hands-On, Caring (Statoil, 2012, Our Values)) represent the values of the people of Norway and the company is responsible for ensuring that these values are exported as a policy product in addition to energy (The Economist, 2013). Each value has detailed explanations on the expected beliefs and behaviors, e.g. *Caring* has five attributes of which the first is "cause zero harm to people and prevent accidents" (Statoil, 2012, Our Values).

Statoil’s strategy statement is one sentence that clearly articulates the goal and scope of operations; it is not time bound but it does set a limit on the type of resources used. (Collis & Rukstad, 2008): “Statoil aims to grow and enhance value through its technology-focused upstream strategy, supplemented by selective positions in the midstream and in low-carbon technologies” (Statoil, 2012, Strategy). The advantage of a timeless statement is that it clearly defines unique positioning (UNCChapelHill, 2013) while allowing for evolving priorities. Details on timing are in the expanded strategy statement shown below. The company seeks to maintain a globally competitive position while proactively ensuring social responsibility and sustainability. Company priorities are: 1. “conduct safe, reliable operations with zero harm to people and the environment,” and 2. “deliver profitable production growth” (Statoil, 2012, Strategy). There are seven strategic focus areas that position the company’s capabilities within the existing environmental constraints and future opportunities (Statoil, 2012, Strategy):

1. Revitalise Statoil's legacy position on the NCS (increase oil and gas recovery to 60%, larger discoveries are in the long-term portfolio with end date of 2020, small discoveries are in the fast-track portfolio);
2. Build offshore clusters (Brazil, Angola, Tanzania);
3. Develop into a leading exploration company (focus on frontier exploration and high impact wells using 3 strategies: (a) early access at scale, (b) exploit core positions, (c) drill more significant wells);
4. Increase activity in unconventional resources (deliver profitable ramp up; develop and execute a technology development program for unconventional resources;

expand acreage holdings through upstream positions; build for the long-term through early access to land);

5. Create value from a superior gas position (Europe and North American markets; short-term: maximize the value of gas; mid-term: market and promote natural gas as the most cost-effective bridge to a low-carbon economy);
6. Continue portfolio management to enhance value creation (focus beyond 2020; improve value by reducing risk, demonstrating intrinsic value, managing asset maturity; redeploy capital from the sales of Statoil Fuel & Retail and Wintershall);
7. Utilise oil and gas expertise and technology to open new renewable energy opportunities (offshore wind in UK; leverage world leadership position in carbon capture and storage (CCS) by continuing domestic efforts).

Executing this many simultaneous strategic priorities with 35 global locations is a complex task. Statoil employs a matrix model with Process owners who work across business areas and are responsible for execution by maintaining standards and best practices in all locations. Function owners oversee management and are responsible for staff and function areas. In keeping with its *Open* value, Statoil freely shares its management system via its website. (Statoil, 2012, Management system). Over its 40 year history, the strategy has guided the company's growth from a start-up in a protected market space to a large, competitive, publicly traded global operator. In this manner Statoil's strategy combines a deliberate and emergent approach to leveraging competitive advantage. Its business model is in alignment with its strategic approach (Capella University (Ed.), 2013, p. 7 & 9). The success of Statoil's strategy and values is evidenced by the financial results illustrated in the history section of this report as well as its growth. Globally Statoil employees over 23,000 people in 35 countries and territories; it is one of the largest net sellers of crude oil and condensate and is the largest natural gas supplier in Europe (Statoil, 2012, Our Operations). Statoil's CEO only earns about $2 million a year and its blue collar workers earn 3 times as much as their British peers (The Economist, 2013). Through its innovation portal, the company regularly issues open innovation challenges in order to incentivize experts to assist the company in developing solutions to business problems (Statoil, 2012, Statoil Innovate).

Controls are the most important part of strategic execution. These must be maintained through monitoring, evaluation and corrective action (Capella University (Ed.), 2013, p. 41). People@Statoil and the My Performance Goals systems are Statoil's methods for ensuring that motivation aligns with best practices. It has also developed a Compliance and Leadership Model that establishes an “A Standard” for activities undertaken between Task and Delivered Result (Statoil, 2012, Management System). The Capital Value Process governs investment decision making. Monitoring Follow-Up is the responsibility of Task Owners. Monitoring Verification is assigned to Line staff. Internal auditing is the responsibility of the CEO and the Board of Directors audit committee. Between 2009 and 2010, a leadership advisory firm, Heidrick & Struggles, was contracted to evaluate and realign the Board's capabilities in order to ensure the Board could effectively manage and assess Statoil's positioning and risk (Anonymous, 2011).

Ethics and Social Responsibility in a Red Ocean Environment

Oil companies are typically focused solely on the extraction and refinement of hydro carbon resources. There is high risk due to high speculation both on the extraction and the market distribution aspects of operations. Wealth is shared by the few who understand the industry and are willing to undertake the risks. Norway is the world's 8th largest oil exporter but is not a member of OPEC and, consistent with its tradition of owning the Nobel Prize, is a major advocate of human rights (The Economist, 2013). Deviating from the prevalent oil company model, Statoil functions more as a natural resource management and wealth preservation agency that happens to profitably operate in the energy industry.

The company's sustainability statement clearly relates to the triple bottom line: "helping to meet the world's growing energy needs in an economically [profits], environmentally [planet] and socially [people] responsible manner" (Statoil, 2012, Sustainability). Its ethics statement and code of conduct are clear and publicly available thought the company website. Statoil's ethics and anti-corruption training program is mandatory for all employees and business partners and is available in five languages, for free and publicly through the company website. The company complies with the Global Reporting Initiative (GRI), is a signatory member of the UN Global Compact and has Health Safety Environment (HSE) indicators as Key Performance Indicators (KPIs). In 2012 it voluntarily underwent an independent assurance audit by KPMG. For three years in a row (2011, 2012, 2013), Statoil has consistently ranked as the top energy company on Corporate Knights Global 100 Index of Sustainable firms (Corporate Knights, 2014). Using the same Index, in 2011 and 2012 it also was the 3rd most sustainable company in the world and in 2013 it ranked 4th (Corporate Knights, 2014). Most importantly, Statoil exhibits brand integrity by uphold its values and taking swift corrective action when things go wrong (Vallaster, Lindgreen & Maon, 2012). In 2012 it won an award for best Corporate Social Responsibility publication (Ragan's PR Daily Awards, 2012). The company determined that in 2011 it violated

Alberta, Canada's Water Act by using too much water during operations. Statoil proactively disclosed the problem (in accordance with its *Courage* value) and communicated that, although it is the only oil sands exploration company with numeric green goals standards, it needed to take swift internal action in order to ensure compliance (*Open, Hands-On* & *Caring* values specifically require a reduction of negative impact on the environment, legal and ethical compliance, delivering on promises, and raising ethical problems immediately). In 2011 external assurance auditing was performed by Ernst & Young. Lastly, Statoil surprised researchers by its willingness to deposit company records in public archives as well as make early records accessible to everyone (Fintland, Martin & Braut, 2013). Examination revealed that company storytelling, company values and company actions are consistent.

Conclusion

Statoil proves that governments can effectively run globally competitive companies and use these companies to equitably distribute wealth and advance social justice. The company's use of technology and knowledge supports Edgeman & Eskildsen (2012) call for pro-active models that deliver true sustainable value (economic, environmental, social) through the rapid development and implementation of improved products, processes, systems that deliver more solutions than those offered by competitors. It is unclear if other governments, including the US which is the global symbol for capitalism, are not following the Norway's Statoil model because (a) they feel they have better alternatives to wealth distribution and social justice propagation (O'Toole & Vogel, 2011), or if, (b) Statoil has succeeded in creating a value so unique it cannot be replicated (WOBI (Producer), 2012). Further research could help clarify this issue.

References

Anonymous. (2011). Improving board effectiveness: Evaluating key lessons from Statoil. *Human Resource Management International Digest*, *19*(2), 8–11. Retrieved from http://search.proquest.com.library.capella.edu//docview/857711973

Capella University (Ed.). (2013). *Crafting and executing strategy: Text and readings* (19th ed.). New York, NY: McGraw-Hill. (Ch1 p. 2-17; Ch2 p.18-43)

Christensen, C. M., & Overdorf, M. (2000). Meeting the Challenge of Disruptive Change. Harvard Business Review Mar/Apr2000, 78(2), 66–76. Retrieved from http://web.ebscohost.com.library.capella.edu/ehost/detail?vid=3&sid=dacadd97-60e2-4703-b8ad-561d3b16c167@sessionmgr113&hid=120&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=bth&AN=2839608

Collis, D. J., & Rukstad, M. G. (2008). Can you say what your strategy is? *Harvard Business Review, 86*(4), 82-90.

Corporate Knights. (2014). The Global 100 Reports. *[Company Website]*. Retrieved February 09, 2014, from http://www.corporateknights.com/report-types/global-100

Edgeman, R. L.; Eskildsen, J. K. (2012). Viral Innovation: Integration via Sustainability & Enterprise Excellence. *Journal of Innovation & Business Best Practices*, *December*, 1–13. doi:10.5171/2012.361451

Fintland, I., Martin, J. B., & Braut, G. S. (2013). Living in a Box, or a Genie in a Bottle? Archives as a Backbone for Corporate Storytelling. *Journal of Management and Strategy*, *4*(3). Retrieved from http://search.proquest.com.library.capella.edu/docview/1417985007

Gordon, R., & Stenvoll, T. (2007). Statoil: A Study in Political Entrepreneurship. In Energy Forum: Case Study Series - The Changing Role of National Oil Companies in International Energy Markets (p. 67). Houston, TX: Rice Univeristy: James A. Baker III Institute for Public Policy. Retrieved from http://bakerinstitute.org/media/files/page/9ffcb110/noc_statoil_gordon_stenvoll.pdf

Kim, W. C., & Mauborgne, R. (2004). Value innovation. Harvard Business Review, 82(7/8), 172–180.

O'Toole, J., & Vogel, D. (2011). Two and a Half Cheers for Conscious Capitalism. *California Management Review. Spring2011*, *53*(3), 60–76.

Porter, M. E. (1996). What Is Strategy? *Harvard Business Review*, 74(6), 61-78.

Porter, M. E. (2008). THE FIVE COMPETITIVE FORCES THAT SHAPE STRATEGY. *Harvard Business Review*, *86*(1), 78-93.

Ragan's PR Daily Awards. (2012). Statoil's CSR report: We broke the law, but will lead in pollution reduction. *Special Edition: Corporate Social Responsibility Awards Winner: Best Publication*. Retrieved February 10, 2014, from http://www.prdaily.com/awards/specialedition/92.aspx

Statoil. (2012). CEO Helge Lund looking ahead on our 40th anniversary. *[Company Website]*. Retrieved February 06, 2014, from http://www.statoil.com/en/about/history/pages/konsernsjef helge lund ser framover på 40-årsdagen.aspx

Statoil. (2012). Ethics and Values. *[Company Website]*. Retrieved February 09, 2014, from http://www.statoil.com/en/About/EthicsValues/Pages/default.aspx

Statoil. (2012). Management system. *[Company Website]*. Retrieved February 09, 2014, from http://www.statoil.com/en/About/TheStatoilBook/Pages/default.aspx

Statoil. (2012). Our Values. *[Company Website]*. Retrieved February 09, 2014, from http://www.statoil.com/en/About/EthicsValues/Downloads/Our%20values.pdf

Statoil. (2012). Our Operations. *[Company Website]*. Retrieved February 09, 2014, from http://www.statoil.com/annualreport2012/en/ouroperations/pages/ouroperations.aspx

Statoil. (2012). People and the organisation. *Statoil 2012 Annual Report*. Retrieved February 06, 2014, from http://www.statoil.com/annualreport2012/en/boardofdirectorsreport/pages/peopleandtheorganisation.aspx

Statoil. (2012). Statoil Innovate. *[Company Website]*. Retrieved February 09, 2014, http://innovate.statoil.com/challenges/pages/default.aspx

Statoil. (2012). The Statoil share. *Statoil 2012 Annual Report*. Retrieved February 06, 2014, from http://www.statoil.com/annualreport2012/en/boardofdirectorsreport/pages/thestatoilshare.aspx

Statoil. (2012). This is Statoil. *Statoil 2012 Annual Report*. Retrieved February 09, 2014, from http://www.statoil.com/annualreport2012/en/thisisstatoil/pages/thisisstatoil.aspx

Statoil. (2012). Strategy. *Statoil 2012 Annual Report*. Retrieved February 06, 2014, from http://www.statoil.com/annualreport2012/en/strategy/pages/strategy.aspx

Statoil. (2012). Sustainability. *[Company Website]*. Retrieved February 09, 2014, from http://www.statoil.com/en/EnvironmentSociety/Pages/default.aspx

Statoil. (2012). Technology and Innovation. *[Company Website]*. Retrieved February 09, 2014, from http://www.statoil.com/en/TechnologyInnovation/Pages/default.aspx

Statoil. (2012, December 14). Company Financials. Retrieved from http://www.reuters.com/finance/stocks/financialHighlights?symbol=STO.N

The Economist. (2013). Norway: The rich cousin. *The Economist*, *Feb 2nd 2013* (Special report: The Nordic countries). Retrieved from http://www.economist.com/news/special-report/21570842-oil-makes-norway-different-rest-region-only-up-point-rich

The World Bank. (2013). Can National Oil Companies Create Value for Their Countries? *Oil, Gas, Mining Unit.* Retrieved February 09, 2014 from http://www.economist.com/news/special-report/21570842-oil-makes-norway-different-rest-region-only-up-point-rich

UNCChapelHill (Producer). (2013). *ECON 125| Lecture 24: Michael Porter - Strategy* [Video]. Available from http://youtu.be/KvYwKM5bY0s.

Vallaster, C., Lindgreen, A., & Maon, F. (2012). Strategically Leveraging Corporate Social Responsibility. *California Management Review*, *54*(3), 34–60. doi:10.1525/cmr.2012.54.3.34

WOBI (Producer). (2012). Renee Mauborgne: Blue ocean strategy, create new markets and leave the competition behind [Video]. Available from http://www.youtube.com/watch?v=clp-IMpuwaQ