EVOLVING STRATEGIES OF OIL COMPANIES AND THE IMPACT ON TRANSFORMATION

Abstract

As the energy landscape evolves, many oil companies are scaling back net-zero commitments to refocus on core hydrocarbon operations, highlighting the challenges of balancing decarbonization goals with profitability and market expectations. This strategic shift requires a delicate balance between sustaining strong margins in traditional oil and gas sectors while strategically diversifying into new energy markets. To assure markets and analysts of their ability to deliver sustainable margins, companies must adopt leaner operating models, aggressively reduce costs, and enhance efficiency in their core businesses. At the same time, diversification into emerging energy markets must be carefully managed to optimize returns and minimize risks. By fostering simplification and streamlining operating model, oil companies can strengthen their competitive position across both hydrocarbons and new energy. Success will depend on their ability to operate with agility, balance short-term profitability with long-term goals, and align their strategies with market expectations and evolving demands.

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Introduction

The oil and gas industry has been under pressure to align with global sustainability goals due to climate change concerns, regulatory mandates, and investor demands for cleaner energy. Many companies have set ambitious decarbonization targets, including net-zero emissions by 2050 and interim goals for 2030. However, recent shifts have shown a recalibration of these strategies, with major oil companies adjusting their 2030 goals due to volatile geopolitical conditions and fluctuating energy markets. This shift reflects a renewed emphasis on traditional operations to meet market demands, indicating a more complex and adaptive path for these companies.

The oil and gas sector are facing challenges in transitioning to integrated energy markets, requiring rapid adaptation, smaller investments, and engagement in diverse players. The sector's legacy IT infrastructures, designed for scale and stability, are not suited for the evolving energy landscape, making it difficult for companies to adapt and thrive in the new market. Despite these challenges, companies are committed to decarbonization and renewable energy expansion.
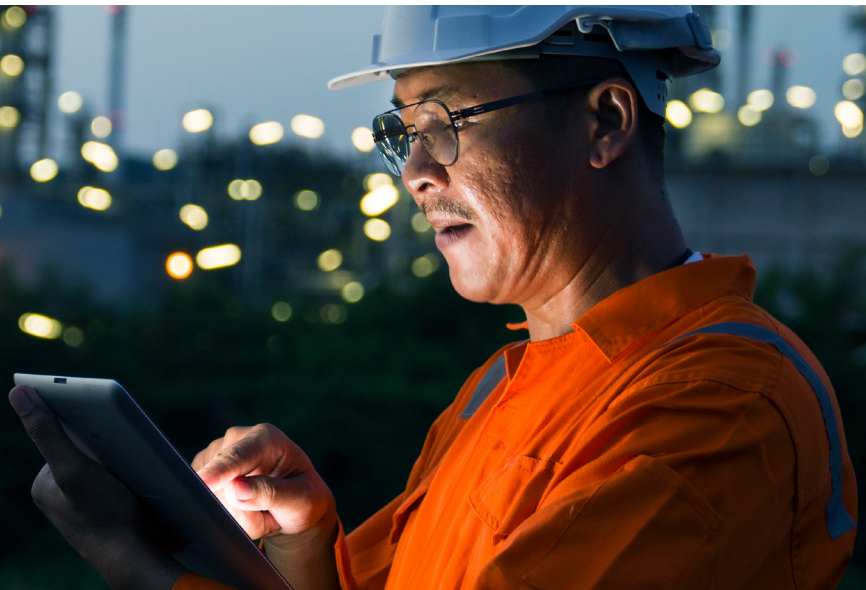
Original Strategy: 2030 Commitments

Many oil and gas companies have set ambitious targets for 2030, aiming to reduce their environmental impact and align with global climate goals. Major players in the industry have outlined detailed plans to transform their operations and significantly cut greenhouse gas emissions. For example, one company announced its intention to reduce oil and gas production by 40% and allocate $5 billion per year towards renewable energy by 2030. Another company pledged to achieve a 20% reduction in carbon intensity by the same year, emphasizing investments in offshore wind, hydrogen, and biofuels. Additionally, a leading firm committed to increasing its renewable energy capacity to 100 GW by 2030, shifting focus from hydrocarbons to cleaner energy sources. These initial strategies are part of a broader initiative to reach net-zero emissions by 2050, signaling a decisive move toward sustainable energy.

Recent Shifts in Strategy: Reductions in 2030 Commitments and Reinvestment

Recent global events, such as geopolitical tensions, an energy supply crisis, and increased economic pressures, have led oil companies to reevaluate their strategies. One major company revised its production reduction target from 40% to 25%, citing the need for flexibility to balance energy security with decarbonization efforts. Another company announced a slower pace of investment in renewable energy, choosing to focus on profitable oil and gas projects to ensure returns for shareholders amid fluctuating market conditions. Similarly, other leading firms that had initially adopted a cautious approach to the energy transition are now emphasizing reinvestment in their traditional operations. These shifts highlight the complexities that oil majors face as they navigate a dynamic energy landscape, trying to balance long-term transition goals with immediate market demands and energy security concerns.

Key Area	2030 commitments	Shift in Strategy
Emission Reduction	Set ambitious targets for reducing greenhouse gas emissions (e.g. Companies aimed for a 35-40% reduction).	Scaled back reductions (e.g. Companies revised targets to 25% reduction), citing energy security and market demands.
Renewable Investment	Planned substantial investments in renewables, with allocating $3-$5 billion/year and targeting 100-150 GW renewable capacity.	Slowed renewable investment pace; redirected capital toward profitable oil and gas projects.
Production Reductions	Committed to cut oil and gas production significantly (e.g. major oil companies pledged a 40-50% reduction in production).	Reduced planned production cuts (e.g. now companies targeting ~25% reduction) to maintain energy supply resilience.
Corban Intensity Goals	Focused on lowering carbon intensity (e.g. companies aimed for a 20-25% reduction).	Adjusted focus back to core oil and gas, as reduced intensity goals were deemed challenging in current market.
Investment Strategy	Targeted large, centralized investments in green energy assets and large-scale renewable projects.	Shifted to smaller, diversified investments and reinvestment in traditional operations to stabilize returns.
Shareholder Returns	Expected to balance sustainability goals with shareholder returns, with gradual profit from renewable ventures.	Renewed focus on shareholder returns through profitable oil and gas projects amid slower renewable growth.

Why is the current operating model hindering transformation?

As oil companies seek to balance the strategies while refocusing on the hydrocarbon and diversify in the new energy market, they find themselves up against traditional operating structure, processes and infrastructure.

Infrastructure lock in -

The reliance on the long-lived highly specialized infrastructure is complex and costly to repurpose. Building new networks, services add further financial and logistical challenges and risk of stranded assets deters companies to retire the existing infrastructure, slowing the pace of transformation.

Legacy Systems -

Many oil companies rely on complex legacy systems, which are expensive to maintain and slow to evolve. Moving to cloud-based or modern IT architectures can be a lengthy and costly process, especially given the stringent security and compliance requirements of the industry.
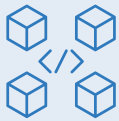
Fragmentation and Duplication –

Businesses with separate operations systems often have fragmented processes and redundant administrative functions, increasing costs and administrative burdens. This can lead to missed cross-selling opportunities and challenges in harmonizing pricing and operating separately, resulting in companies retreating from ambitious plans for seamless customer experiences.

Lack of Business Process Standardization –

Different businesses use different standards, systems, and metrics, leading to inconsistencies in operational practices and customer engagement, leading to higher costs and inefficiencies for customers.

Fragmented Customer Experience -

Disjointed service delivery due to multiple systems, apps, and customer service teams can lead to a disjointed customer experience, resulting in inconsistent loyalty programs and disconnected customer touchpoints. A fragmented business model can result in a lack of personalized services and lower customer loyalty, affecting satisfaction and retention rates.

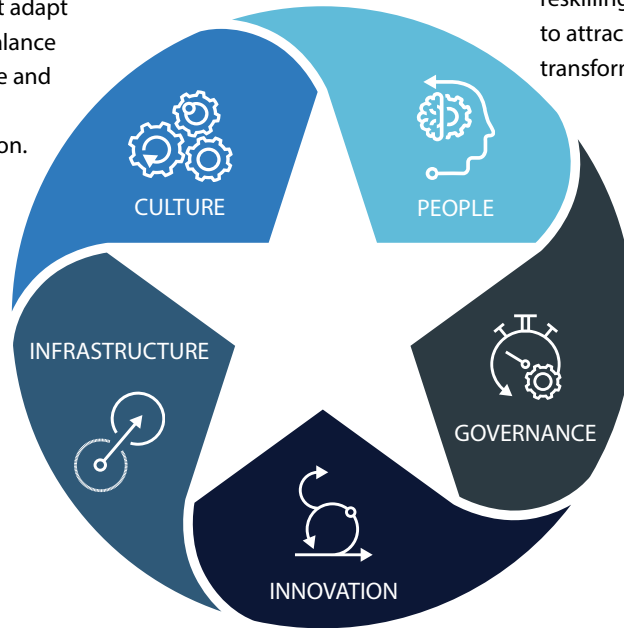# Opportunity for Change: Orchestrating transformation

The global energy market, geopolitical dynamics and economic turmoil caused companies to rethink their priorities.

Upgrading people value proposition

As companies shift towards balancing strategies, there is a need for building a resilient and adaptable workforce by upskilling and reskilling. Create compelling value propositions to attract and retain talent to succeed with transformation and keep pace with change.

Fostering the balanced resilient culture –

The transition is significantly shaped by culture. To accept change and focus on long-term success, oil businesses must adapt their corporate culture by striking a balance between the conventional risk attitude and a collaborative mindset that fosters innovation and technological disruption.

Empowering decentralized governance –

Oil companies need to implement a decentralized governance policy, enabling autonomy to individual business units and entities. With autonomy, businesses will respond more quickly to changes and make faster decisions, foster a culture of innovation and creativity, and better risk management, leading to improved responsiveness and employee engagement.

Enhancing the digitally sustainable Infrastructure –

Oil companies need to be quick and cost-effective to operate and create propositions. They need to ensure that their system and infrastructure are digitally sustainable to enhance customer and employee experience, resolve cyber security challenges, enable partner ecosystems, and create service frameworks that support business on a scalable basis.

CULTURE PEOPLE INFRASTRUCTURE GOVERNANCE INNOVATION

Unlocking speed of innovation –

The oil and gas industry is rapidly changing; the speed of innovation is critical to sustainable growth. Oil companies need to pivot very quickly, balancing the innovation portfolio, building a strong innovation culture, rewarding people's efforts, and implementing decentralized governance to accelerate the speed.

How Companies can embrace new disruptive operating model

Oil companies must adopt strategies that enable agile, cost-effective transformation. This is not solved through traditional code refactoring or cloud migrations but through a fundamental organisation cultural shift changing ways of thinking.

Functioning as an autonomous Organization -

Oil companies benefit from functioning as autonomous organizations by enhancing efficiency, fostering innovation, and improving risk management. Autonomy empowers employees, boosts morale, and allows functions to tailor processes to their specific needs. This approach also promotes healthy competition, adaptability to local conditions, and cost reduction, ultimately driving overall performance and competitiveness.

Simplification and Consolidation -

By streamlining processes and integrating horizontal services and common functionalities, oil companies can create a more unified operational framework. This includes developing a *single customer view* where all customer interactions, preferences, and data are centralized and easily accessible across the organization. Simplification reduces redundancies, improves efficiency, and fosters consistent customer experiences and drives cost savings.

Enhancing Customer and Employee Centricity –

Companies must prioritize customer and employee centricity, with a focus on understanding and exceeding customer and employee expectations. Oil companies should reimagine customer and employee experiences. For customers, they need to offer tailored solutions and enhance personalized services. To create a unique employee experience, companies need to rethink their strategy and reshape the process to up-skill people.

Conclusion

For oil companies, transformation is both a necessity and an opportunity to thrive in a changing energy landscape. While hydrocarbons remain central, success requires streamlining processes, optimizing costs, and adopting a lean, efficient simplification approach. Previous attempts to transform, such as 2030 commitments, faltered due to lack of true systematic changes.

True transformation requires more than minor adjustment. This time, transformation must be bold and comprehensive, involving overhauls of processes, operating models, and structures. Without becoming leaner and more agile, these companies will face significant challenges in maintaining relevance and competitiveness, let alone leading in the market.

By embracing innovation, challenging traditional norms, and becoming more agile, oil companies can sustain their core business while leading in new energy markets. Transformation is essential for securing a competitive, sustainable future.

About the Authors

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Nandkishor Wankhede is a seasoned consulting professional with over 10 years of experience in strategy, finance, sales, business consulting, and technology leadership in the energy industry. He specializes in driving business value through transformation programs across the downstream energy value chain (B2B and B2C). Nandkishor has a proven track record in delivering transformation, optimizing operations, and creating impactful value propositions.
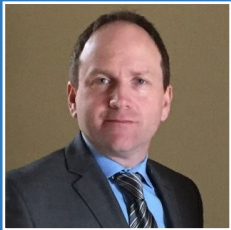
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