

The syndrome of the contractor: The Owners' childhood illness

Authors Name: *Ing. Euthimios Kotroniàs*

Eni S.p.a- Upstream and Technical Services
MEDAB-Cost Estimating Department
San Donato Milanese (Milan)-Italy
euthimios.kotronias@eni.com

Abstract— The recent Global changes are having a deep impact on Oil and Gas Contractors, National Oil Companies (NOC) and IOC (International Oil Companies) structures and functions. The Project Management processes and activities are modifying their original skills, mixing the expertise. This new trend inexorably leads to a loss of know-how in the role of Project Manager.

In the last years, due to the deep economic crisis of the world social and financial conditions, to the increase of oil and gas development projects, due to the dismissal of a great number of experts from the Owners and the simultaneous need of the Owners to optimize and reduce the costs of the investments also in respect of the cultural development of the State Companies, a very huge flow of Project Management knowhow is taking place, flow that brings the Project Management Practice in the environment of the Owner, without the necessary adaptation of the concepts and the analogies.

This flow of Project Management skills from the Contractor side to the Owner side could generate confusion and loss of knowledge.

It is important not to forget that, when we talk of the importance of the Effectiveness and the Efficiency and the paramount value of the Timeliness of the actions and their consequences, the Owner's Project Manager has completely different parameters from the Contractors' Project Manager.

Not of minor importance the width of the view of the Owners' Project Manager, that is completely different of the one of the Contractors Project Managers, also for the different practice of the revenue Generation that is linked to Petroleum Contacts and not to the usual EPC Lump Sum contracts that have a restricted and very rigid validity and authority.

In this way the Owners' Project Managers act and behave in an inefficient and ineffective manner, using time wasting practices completely in the opposite side of the interests of the Project Company.

The role and the different needs of the Project Management in the different realities of Construction and Installation Contractor, Engineering Subcontractor, Main Contractor, EPC

Contractor from one side and Owner from the other side, is an Ideological Breakthrough that has to be spread all over the specialists as a different sub-chapter of the Project Management Discipline.

Managing risk is one of an Owner's Project Management most important functions in making any major project successful. Generally, the Owner's Project Manager is responsible for all of the project risks and he has many means to transfer the project risks to third parties that can manage the outcome.

Thus the 'Personal Responsibility' is the main aspect that differentiates these two aspects for the project manager role: for an Owner prospective this is the main constraint according to the highest standards and to observe industry best practices every day.

The 'Personal Responsibility' for the Contractor (Project Company) is limited to the Contract awarded to the Contractor. On the other side, the 'Personal Responsibility' in the Owner's Projects is unlimited and at times has the dimension of the GDP of a Country. As a matter of fact the Owner has as sphere of activities/interest the Investment Project, instead this sphere for the Contractor regards the Projects within a Contract Framework.

The ability to predict economic behavior of investment projects and predict potential risks and their mitigation, it has become of paramount importance for all actors involved in the "game of economic development" of the world.

In this scenario the Oil and Gas Contractors/NOC/IOC relationships become an interesting subject.

The EPC Contractors and the NOCs have broadened their activities exerting greater influence on the IOCs global sphere of influence, limiting their overall powers.

The increasing complexity of Oil and Gas Projects, the integration needs, the necessity to consolidate skills and areas of influence in the global market bring the Contractors to occupy an increasingly important place deteriorating the original Owner's sway.

On the other hand, becoming mature, obtaining know-how, increasing internal skills NOCs are safeguarding their interests with a consequently IOCs loss of power.

In response, IOCs are trying to maintain their original authority improving their financial advisor effectiveness and increasing their abilities to implement project and related profitability, however with poor results.

But this situation does not necessarily has to bring the IOCs to a future definitely decline. We cannot forget that the 10 largest oil and gas Companies total revenues (3,062,738 MUSD) cover more or less the 4% of the Word GDP (Gross Domestic Product) recorded in 2013; and that the 10 largest International Contractors total revenues (204,724 MUSD) are definitely lower than the Oil and Gas Companies recorded ones. Ultimately the Oil and Gas Companies have the means to reverse the current trends and to restore the original sway.

Furthermore, the historical data show that the Oil and Gas Companies always withstood market fluctuations: there was only one case of Oil and Gas Company Bankruptcies recorded (Yukos, August 2006). This data emphasize the Oil and Gas Companies recovery potential.

CONCLUSIONS

I. This flow of Project Management skills from the Contractor side to the Owner side could generate disasters, overruns and delays.

II. It is necessary to become aware of this process of loss of know-how and to handle and to mitigate this situation.

III. NOCs are increasing know-how expertise management skills and ability to autonomously manage investment Projects. They are trying to minimize the collaborations with IOCs and to substitute the old IOCs relationship with new IOCs 'more amenable'.

IV. EPC Contractors are increasing the width of interventions from Functional, Technological and Geographical point of view, tending to overlap with the role of the IOCs.

V. IOCs either will go towards a status where, after shrinking their sphere and range of action, they limit their

action in Financial Advisor activities with an eventual deployment of venture capital or they will decide to increase their management skills and capability in delivering in time and within budget in order to survive in a continuous and challenging clash with NOCs and EPC Contractors.

TABLES

Company	Revenue	Headquarters
Royal Dutch Shell	484,489	Netherlands / United Kingdom
Exxon Mobil	438,255	United States
BP	386,463	United Kingdom
Sinopec	375,214	China
China National Petroleum Corporation	352,338	China
Chevron Corporation	245,621	United States
Conoco Phillips	237,272	United States
Total	231,58	France
Gazprom	157,83	Russia
Eni	153,676	Italy
TOT.	3,062,738	

Table 1- List of largest oil and gas companies by revenue (MUSD)

Rank	Firm	2012 Revenue (US \$ m)		
		Int'l	Total	
1	2	Grupo ACS, Madrid, Spain [†]	42,772.0	50,654.6
2	1	HOCHTIEF, Essen, Germany [†]	34,563.3	36,452.7
3	5	Bechtel, San Francisco, Calif., U.S.A. [†]	23,255.0	29,436.0
4	3	Vinci, Rueil-Malmaison, France [†]	18,419.5	50,338.7
5	7	Fluor Corp., Irving, Texas, U.S.A. [†]	17,209.6	22,352.8
6	4	Strabag SE, Vienna, Austria [†]	16,062.0	18,557.0
7	8	Bouygues, Paris, France [†]	14,196.0	33,885.0
8	6	Salpem, San Donato Milanese, Italy [†]	13,770.7	14,039.1
9	9	Skanska AB, Solna, Sweden [†]	13,291.6	17,217.0
10	10	China Communications Const ruction Group, Beijing, China [†]	11,187.2	47,327.3

Table 2- List of largest international contractors by revenue (MUSD)



Company	Asset (Billion \$)	Business
Lehman Brothers	691	global financial services
Washington Mutual	327.9	savings bank holding company
WorldCom	103.9	telecommunications companies
General Motors	91	vehicles and vehicle parts
CIT Group	80.4	bank holding company
Enron	65.5	energy, commodities, and services company
Conseco	61.3	insurance company
MF Global Holdings	40.5	global financial derivatives broker
Chrysler	39.3	vehicles and vehicle parts
Thornburg Mortgage	153	real estate investment trust

Table 3- Top 10 largest bankruptcies of all time