


RETHINKING THE OIL AND GAS ORGANIZATION

Organizational choices made during a time of resource scarcity need reexamination when the cycle turns.

by Christopher Handscomb, Scott Sharabura, and Jannik Woxholth

When business cycles turn, cyclical industries can struggle to retool their organizations for the new environment. For instance, today's oil and gas companies were developed in a time of resource scarcity. To get at those hard-to-find, difficult-to-develop resources, companies greatly expanded the role of their central functions—mandating them to set common standards, make technical design decisions, track company-wide metrics, and disseminate best practices. This worked well during a decade of high growth and high prices but created complexity that added costs, stifled innovation, and slowed down decision making. As these central teams expanded, general and administrative costs grew fivefold, hitting nearly \$5 per barrel (exhibit), with the biggest increases coming from technical functions such as engineering, geosciences, and health and safety.

With prices now below \$50 a barrel, that organizational blueprint is no longer sustainable. While companies have cut their support functions since 2014, the overall organizations supported by these functions are also smaller. This suggests further reductions in corporate functions will be needed, as well as new organizational models.

A more agile organization, with fluid teams and looser hierarchies, can lower costs and create greater responsiveness to today's vastly different markets—ranging from megaprojects to less asset-heavy unconventional shale-oil and renewable-asset plays. Technologies such as networked sensors that generate and share data can help optimize production processes, while digitally enabled automation of routine manual activity can reduce human risk and spur productivity. Critically, the structures built to manage scarce talent and large-scale megaprojects will need to be fundamentally redesigned. We see two models arising: for lower-risk assets such as tight oil, a very lean corporate center with highly autonomous asset teams will suffice, while higher-risk, more capital-intensive assets will need a comparatively stronger center with deeper functional and risk-management capabilities. 

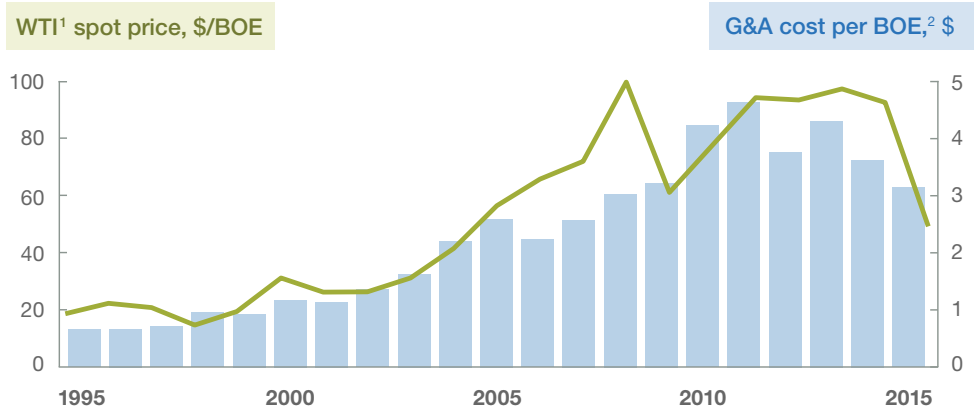
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For additional insights, see "The oil and gas organization of the future," on [McKinsey.com](https://www.mckinsey.com).

Exhibit

Oil companies have cut support functions since 2014 but must consider more radical organizational changes as prices remain weak.



¹WTI = West Texas Intermediate.

²G&A = general and administrative; BOE = barrel of oil equivalent. Data represent ~130 North American exploration and production players.

Source: US Energy Information Administration

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