Chevron Environment Fit Analysis

Walker Wheeler - MBA 617 - February 6, 2015

How turbulent is your company's environment, and how well do they adapt?
The company's environment is fairly turbulent, but they do very well at adapting.

#1: List out as many elements affecting your company as you can for each of the sectors below.
Industry (Competitors, industry size, competitiveness, related industries):

- **Competitors**
  - Exxon Mobil Corporation
  - PetroChina Company Limited
  - Royal Dutch Shell
  - Total SA
  - British Petroleum
  - Schlumberger Limited
  - China Petroleum & Chemical Corp
  - Kinder Morgan Inc.
  - ConocoPhillips
  - Several much smaller firms
- **Industry Size**
  - The Oil and Gas industry is a global industry. The largest 63 by revenue are all multi billion dollar companies with total revenues around $5.7 trillion for the industry. Chevron's share of this is $200 billion.
- **Competitiveness**
  - The oil and gas industry is highly competitive. Chevron handles some of this by virtue of being an integrated energy company. They own or lease the field, extract the raw material, refine, transport, and ultimately deliver to a retail establishment in one of their brand names.
- **Related Industries**
  - Exploration
  - Drilling and Well Service
  - Transportation
  - Refining
  - Fabrication
  - Process Control Systems/SCADA
  - Plumbing and Pipefitting
  - Green Energy

Raw Materials (Suppliers, manufacturers, real estate, services):

- **Suppliers**
  - The majority of raw materials for Chevron comes from countries and territories leasing or selling land to Chevron for Oil and Gas exploration and development.
- **Manufactures**
  - Chevron produces oil and gas based products that supply several industries through their Chevron Phillips Chemical Company. The product families includes hydrocarbon fluids, mining chemicals, odorants, speciality chemicals, speciality organosulfur compounds, sulfides, disulfides & polysulfides, performance fuels, reference fuels, mercaptans, and catalysts.
- **Real Estate**
  Chevron depends heavily on procuring new development sites that are both on shore and offshore. The drop in crude oil prices has required leaning more on land based resources. The following is a list of continent/country locations that Chevron is relying.
  - Africa
    - Angola - Producing offshore
    - Nigeria - Aparo Field, Bonga SW Field
    - Exploring in other countries.
  - Asia
    - Tengizchevroil Future Growth Project, Kazakhstan
    - Duri Field Expansion, Indonesia
    - Wafra Field Steamflood Project, Partitioned Zone
  - South America
    - Papa Terra, Brazil
    - Plataforma Deltana, Venezuela
    - Argentina
    - Suriname
  - North America
    - U.S. Gulf of Mexico
    - California, United States
    - Alberta, Canada - Athabasca Oil Sands Project
    - Several other U.S. states
  - Europe
    - U.K. - Rosebank Field (offshore)
    - Denmark
    - the Netherlands
    - Norway
  - Australia
    - Gorgon Field
- **Services**
  Chevron operates under the brand names Chevron, Texaco, and Caltex. The provide direct to consumer services through gas stations, and an offering of

chemicals direct to businesses.

Human Resources (Labor market, employment agencies, universities, unions):

- **Labor Market**
  Chevron has numerous jobs worldwide. The job types include Accounting, Administrative, Business Development, Business Strategy, Chemistry, Drilling and Completions, Engineering, Finance, Geology/Geophysics, Human Resources, Health & Safety, Information Technology, Legal, Maintenance, Manufacturing, Maritime Operations, Policy - Government and Public Affairs, Procurement, Project Management, Refining Operations, Sales & Marketing, Supply & Trading, and Transportation. Chevron employees approximately 64,500 employees in more than 180 countries. About 3,200 of those are service station employees.
- **Employment Agencies**
  Chevron carries out the activities of recruitment and hiring. This includes recruitment at conferences, colleges, and through the career's section of their website.
- **Universities**
  Chevron recruits from about 100 colleges through campus visits and job fairs.
- **Unions**
  In 2015, Chevron will use local labor unions which are affiliated with international labor organizations. The majority of the workers will be sourced from the United Steelworkers (USW) with approximately 3,000 employees in the U.S. They will also work with the International Brotherhood of Electrical Workers (IBEW), International Union of Petroleum and Industrial Workers (IUPIW), the International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers, and Helpers (Boilermakers), Sailors' Union of the Pacific (SUP), and the Marine Engineers' Beneficial Association (MEBA) represent the remaining organized employees.

Financial Resources (Stock markets, banks, private investors):

- **Stock Market**
  The Chevron Corporation trades under ticker CVX on the New York Stock Exchange (NYSE), with a current market valuation of $109.61. They have recently been reducing the number of common stock available with aggressive stock repurchases, but with the drop in oil prices have stopped this practice.
- **Banks**
  Chevron has continued to be rated a AA credit worthiness score.
  - They have some existing relationships with large banks and underwriters including:
    - Wells Fargo Bank, National Association

        - J.P. Morgan Securities LLC,
        - Merrill Lynch,
        - Pierce, Fenner & Smith Incorporated and
        - Morgan Stanley & Co. LLC
    - In addition to borrowing money from these banks, Chevron also has established Chevron Federal Credit Union. This FCU has locations in California, Louisiana, Mississippi, Texas, Colorado, and Utah.
- **Private Investors**
  Chevron is a publicly held company, so there are no private investors so to speak. There are many people who may own shares in Chevron, but all of the ownership is either through public brokers.

Market (Customers, clients, potential users):

- **Customers, Clients, Potential Users**
    - Customers for Chevron are worldwide.
    - Customers are either other businesses or direct consumers.
    - Customers will range from individuals filling up at a Chevron service station to those who require a special fuel formula that is not in regular circulation.
    - The various clients for Chevron products and services are as varied as their product lineup.

Technology (Techniques of productions, computers, information technology, e-commerce):

- **Techniques of Productions**
  Chevron takes advantage of technology in several ways. The most pronounced is in the process control systems that are used in the production, transport, and refinement of their oil and gas. These process control systems monitor environmental and product conditions through the various stages of the product life cycle. These systems routinely measure temperature, pressure, and related conditions to automatically control many of the processes for production and refinement.
- **Computers**
  Almost every company based position requires a computer today. Functions including but not limited to accounting, engineering, finance, project management and legal all require computers to complete their work.
- **Information Technology**
  Chevron has a vast Information Technology (IT) support requirement. Communications between hosts, daily production levels, marketing & advertising, recruitment, most functions in the company require the utilization of an IT infrastructure. The infrastructure likely includes file and printer servers, web servers, collaboration servers including email, calendaring, and instant messaging all highly rely on this. Additionally tools like CAD, CAM, and GIS all require some internal support to effectively run.

Economic Conditions (Recession, unemployment rate, inflation rate, growth):

- **Recession**
  Chevron's performance during the 2007-2008 Financial Crisis appears to have thrived during a time of recession, however this may not be indicative of all recessions. The products provided are in many ways a staple of modern life. Although there are ample substitutes, they are all similarly priced, providing consumers no reason to seek other substitute products.
- **Unemployment Rate**
  A decrease in the unemployment rate appears to negatively affect Chevron's stock price.
- **Inflation Rate**
  Chevron responds negatively to increases inflation, evaluated through the Consumer Price Index. An increase in CPI corresponds to a decrease in the company's stock price.
- **Growth**
  Economic growth has a positive correlation for Chevron. When the monetary base and M2 Money supply are up, the company does better. This makes sense as the product they create is a staple of modern constructions and business.

Government (City, state, and federal laws, regulations, taxes):

- **City, state, and federal laws**
  Chevron is constantly faced with laws that they are required to comply. These include business licensing fees, tax codes, and localized requirements for how business can be handled. They also may require purchase of certain insurances (unemployment insurance or worker's compensations) to operate in the area.
- **Regulations**
  Many regulations are enforced that Chevron has to comply. For example the federal government has created the Occupational Safety and Health Administration agency to oversee how operations are carried out. They mandate that prior to arriving at the work site, employees are given reasonable amounts of safety training for the tasks they will be performing. They also require certain information (material safety data sheets) to be available to those working with potentially hazardous substances. Additional regulations that affect Chevron include the U.S. Bureau of Ocean Energy Management (BOEM) which since 2010 enforced much stricter regulations on all offshore developments. The recent extra scrutiny is related to the Deepwater Horizon explosion that resulted in an oil spill in the Gulf of Mexico.
- **Taxes**
  Chevron like any other organization has to handle several components of taxes. These include state and federal taxes payments on behalf of employees,

but also the company's tax. This past year Chevron's tax obligation was approximately $11.9 billion.

Sociocultural (Age, values, beliefs, educations, religion, work ethic, consumer and green movements):

- **Age**
  Generally Chevron products are intended for all consumers, though many will not find them useful until they first need to place fuel into a combustion engine. However, the all ages are exposed to the need for the products that they make.
- **Values**
  Chevron has attempted to align themselves positively in the general sense with those would be opponents. They have chosen the following points to highlight how they would like to be perceived.
  - Integrity - They are honest with high ethical standards.
  - Trust
  - Diversity - They respect the cultures where they are working
  - Ingenuity - They employee out-of-the-box thinking to solve problems.
  - Partnership - They want to be known as a good partner.
  - Protecting People and the Environment
  - High Performance
- **Beliefs**
  "The Chevron Way explains who we are, what we do, what we believe and what we plan to accomplish. It establishes a common understanding not only for those of us who work here, but for all who interact with us."
- **Educations**
  Chevron has placed over $100 million in U.S. education in the past 3 years. In 2013, worldwide they invested $94 million in education partnerships and programs. They will continue to support STEM education.
- **Religion**
  Chevron does not endorse any specific religion. They hire from all belief systems that are compatible with their values. Owners of Chevron shares can fall into any religion.
- **Work Ethic**
  As a company they strive for a very high work ethic. They have a formal document on "Business Conduct and Ethics Codes" that helps set the work ethic stage.
- **Consumer and green movement**
  Chevron is advancing some of the green energy movements that consumers have started to demand. At Chevron's core, they are an energy company. Although they primarily focus on their oil and gas business, the company is looking at ways to make viable and use where possible green energies. These include the following:
  - Geothermal Energy
  - Advanced Solar Technologies

    - Wind Power
    - Biofuels

International (Competition from and acquisition by foreign firms, entry into overseas markets, foreign customs, regulations, exchange rate):

- **Competition from and acquisition by foreign firms**
  Chevron is currently valued in the $200 billion range and is likely not a target for acquisition with the current state of the global oil and gas market. They continue to compete with both national and international firms, but are 5th in size among them.
- **Entry into overseas markets**
  Chevron has been a global company for quite some time and continually enters into overseas markets. Most recently they are working on the Gorgon field off the coast of Australia. They have already signed contracts to ship the majority of the liquid natural gas produced to South Korea.
- **Foreign Customs**
  The products Chevron sales are not subject to customs regulations. They are regulated by major nations, but have defined paths of entry and exit.
- **Regulations**
  The regulations they face outside of the U.S. are similar to those they face inside of the country.
- **Exchange Rate**
  Although Chevron is impacted by volatility in exchange rates, the amounts tend to total less than 0.1% of revenue.

#2: Is the organization internationally diversified? Yes/No
If yes, where are they currently? Who are their major competitors? What markets should they expand to?

Yes, Chevron is definitely internationally diversified. As stated in the break out of question 1, they do produce on the following continents and countries:

- Africa
    - Angola - Producing offshore
    - Nigeria - Aparo Field, Bonga SW Field
    - Exploring in other countries.
- Asia
    - Tengizchevroil Future Growth Project, Kazakhstan
    - Duri Field Expansion, Indonesia
    - Wafra Field Steamflood Project, Partitioned Zone
- South America
    - Papa Terra, Brazil
    - Plataforma Deltana, Venezuela
    - Argentina
    - Suriname
- North America

- U.S. Gulf of Mexico
    - California, United States
    - Alberta, Canada - Athabasca Oil Sands Project
    - Several other U.S. states
- Europe
    - U.K. - Rosebank Field (offshore)
    - Denmark
    - the Netherlands
    - Norway
- Australia
    - Gorgon Field (offshore)

Their major competitors include the following in order of total revenue. Chevron would rank number 5 on this list if they were included.

- Exxon Mobil Corporation
- PetroChina Company Limited
- Royal Dutch Shell
- Total SA
- British Petroleum
- Schlumberger Limited
- China Petroleum & Chemical Corp
- Kinder Morgan Inc.
- ConocoPhillips

Chevron should consider expanding further into the renewable energies area. They already have started on this path, and could really make large contributions to the commercial and private viability of these technologies.

#3: How complex and unpredictable is the organizations environment?
Chevron operates in a very complex and and unpredictable environment of high uncertainty.

Which environment does your organization exist in?
Chevron exists in a complex and unstable environment meaning there is high uncertainty in this environment. Being an integrated oil and gas company means that the company is taking on much more than a single product or service and thus complex. They are taking on the building fields to produce their raw material, transporting the material, refining the material, and providing the finished product to consumers. They are essentially the whole supply chain. The rating of unstable of the Chevron's environment comes from the range of risks that contribute to this instability. The industry is regulated, which could be modified at any point in time. They are susceptible to lawsuits, and routinely they are brought against the company. The prices for oil have up until recently been held at a steady high level, but a dramatic downfall in crude oil prices happened within weeks to destabilize the market, leaving Chevron and others rearranging their long term plans to weather the storm.

#4: Does your organization's strategies and goals fit their environment? Circle one of the types in the following categories that you have found your company to portray: environment, strategy type, and organizational goals.

	Type 1	**Type 2**	**Type 3**	**Type 4**
Environment	Calm	Varied	Locally stormy	**Turbulent**
Strategy types	Reactor	Defender	Prospector	Analyzer with/without innovation
Organizational goals	Neither	Efficiency	Effectiveness	Efficiency and Effectiveness

Analyzer with innovation: Strong focus on both exploitation and exploration. Exploits its current position of resource utilization and market position, adopts an active innovation strategy of developing new products. Goes beyond what others do and surveys technology and market changes to look for additional opportunities.

#5: Did your organization align across environment, strategy type, and organizational goals? Yes/No
If yes, where do you think the organization should go now? Do you predict changes in their environment?

Yes Chevron aligned to type 4. The company is perfectly positioned to handle the complex, changing, unstable, and unpredictable environment in which they do business. They should continue to take advantage of their size and exploit the resources they possess which still make sense in the current market. They should additionally take advantage of their strong balance sheet to purchase competitors assets at lower prices to further position themselves in the market when it eventually recovers. They should also re-think their current main products as a gap solution until they can further the development of cleaner and cheaper energy from renewable sources.

The environment will continue to change, and will likely require tighter regulations on production and handling of petroleum products. A burden that they will take on when they have to.