Resource Nationalism and the Changing Business Model for Global Oil

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I. INTRODUCTION

The main purpose of this work is to discuss and critically evaluate the area of resource nationalism and its impact on the changing global oil industry. Two practitioner-oriented theories (path dependence and real options) are also discussed that are relevant to the global oil industry and the resurgence of resource nationalism. The oil business is like the old adage about weather, "everyone complains, but nobody does anything about it." As a commodity that impacts every aspect of the world business, record-breaking oil prices are a boon for producers and a burden for users. As an industry, oil is being heavily impacted by the forces of globalization, foreign direct investment (FDI), and resource nationalism. These ever changing geopolitical issues continue to unsettle world investment and trade, governments, corporate policymakers, and customers worldwide.¹ In global business, history seems to be repeating itself in the contexts of political risks, asset expropriations/confiscation hazards, and politically motivated nationalizations that initially took place mostly in the sixties and seventies. The types of activities that took place in Iran, Libya, and Mexico are being seen now on a broader scale. According to Howell and Chaddick:

"Political risk exists for both domestic investors and foreign investors and many of the techniques for assessment of risk are the same for both of them".²

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Within this perspective, resource nationalism is often fraught with "country, industry, and firm influences"\(^3\), involving interventionist governments and their economic and institutional agendas.\(^4\) Other variables of this debate encompass corruption issues\(^5\), and economic and political factors in the control of petroleum assets that are still in the ground awaiting extraction.\(^6\) The trend is for these reserves to be increasingly placed under the control of national oil companies so that the revenues can be fully captured by governments. This shuts out the international oil companies (IOCs), except for low influence relationships that are increasingly of a service contract nature. Additionally, governments are becoming emboldened to arbitrarily void their standing agreements and long-term contracts with these once-mighty business organizations.

This article examines the ongoing IOCs’ drama in the context of path dependence that contributes to organizational resistance to changes in the business environment. Beyond this, it identifies elements of real options theory in which resources are captured but not necessarily exploited.

II. ISSUES OF OIL AND GAS SECTOR

The traditional model of oil and gas development involves acquisition of an acreage, followed by evaluation, site selection, drilling, and production of wells if they are successful. This procedure was established in the early days of oil exploration in the U.S. which is one of the few nations in which petroleum mineral rights are held by private land owners. Although the payment to mineral rights owners is negotiable, they traditionally receive a 1/8 portion of the oil and gas revenue from reservoirs under their land. The oil company keeps the other 7/8, but has 100 percent of the decision-making authority because the land owner is a royalty owner and not a working interest partner. At their prerogative, the oil company may remedy, deepen, or even abandon the producing property in any way they see fit. In this fashion, the property owner may see trucks and equipment arriving at any time during the life of the well without having any knowledge or involvement in the decision-making process.

III. ISSUES OF RESOURCE NATIONALISM

In developing countries and emerging markets, oil companies typically negotiate

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