

Thesis in “Enterprise Management & Evolution”

The Competitive Advantage in Natural Gas Industry: Evidence from Eni

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New Theories on Competitive Advantage

Resource Based View (RBV): firm-specific resources are the fundamental determinants of competitive advantage and performance (Penrose E., 1959)

Resources should be:

(Barney, 1991)

- Valuable
- Rare
- Not imitable
- Supported by the Organization

Dynamic capabilities: capability of managing resources in order to facilitate expansion and growth despite internal and external industry changes.

Combination of adaptation to external environment and internal capability of management

- Relation Capability (Helfat, 2007)
- Entrepreneurial Management (Teece, 2009)
- Investment Allocation (Teece, 2009)
- Organizational Changes (Helfat, 2007)
- Learning and Routines evolution (Zollo and Winter, 2002)

“...If an enterprise possesses resources/competences but lacks dynamic capabilities, it has a chance to make a competitive return for a short period; but it cannot sustain supra-competitive returns for the long term..” (Teece D., 2009)

Research Questions

1. What resources may provide a potential sustainable competitive advantage for Eni in the natural gas industry?
2. Has Eni dynamic capabilities and which is their impact on its performance?
3. Does Eni case prove something different from what theory maintains?

Why Eni ?!?

Real example of a company that tries to achieve a competitive advantage dealing with external environmental changes

- Natural Gas Market Revolution
- Unconventional Gas Exploitation: separation oil and gas prices
- Lower cost for unconventional gas production, with positive effects on prices
- USA from importers to exporters
- Eni is one of the smallest among the “Supermajor” Oil and Gas companies, **on the way to achieve a competitive advantage**
- Eni is experiencing many external environmental challenges, such as: **decreasing in demand and over supply of natural gas, long term contracts for importing of natural gas at fixed old and so high prices**
- Italian Company, so far divided in three main divisions: Exploration&Production (E&P), Gas&Power (G&P) and Refining&Marketing (R&M)

Research Design

Qualitative and explanatory method (Grant R. – Strategic Management Journal, 2003)
through the study of many documents and reports, interviews to managers of
Eni Spa - Gas&Power division.

- a) VRIO Analysis: are Natural Resources, Technological Resources, Financial Resources and Human Resources: Valuable, Rare, not Imitable and supported by the Organization (VRIO)?
- b) Once achieved VRIO analysis results, combination of theory and practice: from static Resources to Activities that show Dynamic Capabilities
- c) Dynamic Capabilities Analysis: collection of Company's reports, Newspapers Articles, Press Releases and Interviews on activities established according to point b. Study of Eni position in respect of those activities in order to verify the alignment with scholars and theories.

Results 1/2

a) VRIO Analysis

Eni Resources	<i>Valuable</i>	<i>Rare</i>	<i>Difficult to imitate</i>	<i>Supported by the organization</i>	<i>Competitive Implications</i>
<i>Natural Resources</i>	YES	YES	NO	YES	Competitive parity
<i>Technological Resources</i>	YES	YES	YES/NO	YES	Temporary Competitive Advantage
<i>Financial Resources</i>	YES	NO	NO	YES/NO	Competitive disadvantage
<i>Human Resources</i>	YES	YES	YES	YES	Potentially Sustained Competitive Advantage

b) Activities:

Technological Resources



Strategic alliances

R&D Investments

Human Resources



Strategic Planning Process

Organizational Structure

Human Resources Management

Results 2/2

c) Dynamic Capabilities Analysis

Activities	Results	Dynamic Capabilities	Level of Presence
Strategic Alliances	Increased in the 3 years, main purpose expansion and contrasting natural gas revolution. Strong CEO and Senior Executive Director influence	Relation Capability	High
R&D Investments	Partnerships with popular universities. R&D Return Ratio increased despite a constant trend of R&D expenditures. Good investments allocation	Investment Allocation	Medium/High
Strategic Planning Process	Not changes in the structure, but large increasing in employees involvement	Routine Evolution	Medium
Organizational Changes	Strong Organizational changes. Creation of a new division to better face natural gas revolution	Internal Changes	High
Human Resources Management	Attention on human capital in foreign subsidiaries , through training sessions, knowledge sharing and involvement into the company (Cascade Programme, Ideas Developer Group, Initiatives for all employees families)	Identification	Very High

Discussion & Conclusion1/3

Eni case shows a strong alignment with the theory:

- In a period of decreasing in natural gas operating profits and change in the external environment, dynamic managerial capabilities are successful to exploit resources in the most efficient way
- The Company is undertaking partnerships and R&D investments in order to make the business growing
- Strong internal organizational re-arrangement

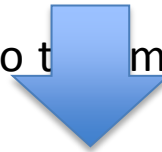
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Discussion & Conclusion 2/3

What really are Dynamic Capabilities?

1. Dynamic capabilities depend from the people ability to make the right choices. Strategic alliances and R&D investments are strictly linked with top management or R&D team decisions, **these activities cannot be performed without decision makers.**
Activities are instruments, dynamic capabilities are inside human capital
1. Furthermore dynamic capabilities should also be studied on management of post-decisions results related with the employees. For example: about organizational changes, how employees react to it? They are positive or obstruct changes?

Scholars do not pay enough attention to the importance of **EMPLOYEES IDENTIFICATION** within the Company



When all employees feel part of the Company they are not just RE-ACTIVE but also **PRO-ACTIVE** (“IDEAS GROUP DEVELOPER”) easily accepting changes and grasping information from outside, bringing new ideas actively and dynamically participating in the Company success

Discussion & Conclusion 3/3

- Dynamic managerial activities are essential in order to manage and “orchestrate” (Teece 2009) in the most efficient way resources.
- Dynamic capabilities are capabilities related to human capital therefore, in a second moment, carried out in different forms

In order to achieve a sustainable competitive advantage, each company should take into account:

**DYNAMIC CAPABILITY OF ALL PEOPLE WITHIN THE ORGANIZATION
&
TO INVEST IN ORDER TO DEVELOP IT**

THANK YOU!