As oil firms grow, response may slow to crises like Gulf oil spill

Shortly before the Deepwater Horizon blowout, Halliburton bought an oil spill prevention firm. The oil-services industry is consolidating, which is not necessarily good news for quality, experts say.

Tim Probert (r.) of Halliburton is sworn in along with officials from BP and Transocean before May 11 Senate hearings on the Gulf oil spill.

Tim Sloan/AFP/Newscom

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By *Matt Rocheleau*, Contributor / June 18, 2010

Eleven days prior to the April 20 Deepwater Horizon blowout, Halliburton Co., the contractor in charge of cementing the rig's well, agreed to purchase a little-known company.

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The firm, Boots and Coots, focuses on oil spill prevention and blowout response. Now, it is assisting with the relief well work – under contract to BP – to help stop the Gulf oil spill.

What appears to conspiracy theorists as more than a coincidence is nothing out of the ordinary, say oil-industry experts. Increasingly, oil-industry titans are buying up smaller companies that provide all manner of services.

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But this trend is worrying in itself, the experts say. As companies grow and work both to drill wells and potentially clean up their own mistakes, the result can be unintentional but riskier decisionmaking over time due to a lack of focus – particularly in an industry that is poorly regulated.

Moreover, there is concern that – as the Gulf oil spill shows – big bureaucracies are not nimble enough in an emergency.

“Working on both sides of the fence” is not uncommon in the oil industry, says Robert Gramling, author of “Oil on the Edge: Offshore Development, Conflict, Gridlock."

But “it makes for a very complex decisionmaking environment that can become problematic,” he adds.

Creeping complacency

The concern is not so much about intentional negligence but creeping complacency.

“Nobody’s going to say, ‘Oh, don’t worry, we have a cleanup service, we’ll be all right if there’s a spill,’ ” says Hugh Gorman, author of “Redefining Efficiency: Pollution Control, Regulatory Mechanisms, and Technological Change in the US Petroleum Industry.”

But reassurance about how diversified the business’ services are can lead to relaxed decisionmaking over time, some suggest.

This can be exacerbated by the fact that the oil industry is “very politically powerful” and oil companies do not face the same strict regulatory and safety standards that, for example, airline companies do, says Mr. Gramling, a professor at the University of Louisiana, Lafayette. This can allow for big businesses within the industry and the industry as a whole to “become too cozy,” he adds.

Halliburton is among the most diversified oil-industry firms. In its $240 million purchase of Boots and Coots – which is still pending regulatory and shareholder approval – it sought to buy a company whose services are “designed to reduce the number and severity of critical events such as oil and gas well fires, blowouts, or other incidences due to loss of control at the well” through both preventive and emergency response services.

In recent years, “there’s a trend toward getting a broader set of offerings from larger companies,” says Douglas Sheridan, managing director of EnergyPoint Research, a market research firm in Houston that serves the oil and gas industry.

But his company’s own customer-satisfaction surveys suggest that bigger is not necessarily better. “There is a potential problem with companies becoming so large that they can’t provide the focus needed on specific services and on the execution of those services,” says Mr. Sheridan.

Smaller, more-focused service providers generally rate higher in satisfaction surveys, and a spill of this magnitude – which involved “major players” like BP, Transocean, and Halliburton – could lead customers to invest more in companies that have a narrower business approach, Sheridan adds.

Halliburton's reputation

For its part, Halliburton is known within the industry for maintaining its quality despite its growth. “Does Halliburton’s satisfaction suffer from it being a large and unwieldy company? Yes. But

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they're doing a better job of providing quality service than some of their competitors," Mr. Sheridan said.

Other experts worry more about the impact of size on a company's ability to respond quickly and effectively to disaster.

"A company of [BP's] size has to become a bureaucracy, and bureaucracies need stable environments. They're like cement," says Cathie Currie, a cognitive social psychologist at Adelphi University in Long Island, N.Y.

Though bureaucratically managed companies can work well in some industries where there is little chance of a major unexpected event, they can struggle in high-risk industries such as drilling for oil.

Says Ms. Currie: "[The business model] doesn't work when you need to be innovative."

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[Editor's note: *The headline was changed to better reflect the content of the story.*]

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