

The Business Economist at Work: Mobil Corporation

By Diann H. Painter*

The corporate economist at Mobil is located in the Corporate Treasurer's department but serves the entire organization as an in-house consultant. Resources are outside consulting firms, extensive use of the Internet, and personal contacts. Areas of involvement include economic forecasting, scenario planning, risk management for foreign exchange and bond exposure, country risk analysis for credit decisions and supplementing country risk analysis for investment decisions.

MOBIL CORPORATION is a major producer, refiner, and marketer of petroleum, and also has a large chemical operation. Its business interests extend to about 140 countries. In 1997, revenues were nearly \$66 billion and operating earnings were \$3.4 billion, supporting a 14 percent return on capital employed. Currently, a proposed merger with Exxon Corporation is under review.

"Adding value" is currently a popular phrase in management circles. While I generally try to avoid using such jargon, I have found it useful to focus on how economic analysis can add value to Mobil's business and staff operations. These days any function that doesn't add value to the bottom line and shareholder value is a candidate for elimination.

I joined Mobil in 1988 as the senior international economist in the Corporate Planning Department. Since that time, Mobil has undergone significant reengineering. As a part of that restructuring, I am now Mobil's corporate economist located in Corporate

Treasurers. While I was hired as a specialist, I have become a general practitioner serving clients throughout the whole organization from top executives in the Corporate Center to staff in affiliates around the world, i.e., I am an inside consultant. I work with line business and staff units to use economics to add value to their activities.

As Mobil has streamlined and pushed authority down in the organization, teamwork has become more and more important. The luxury of doing elaborate economic forecasts or concentrating on special research projects in isolation within a research or planning department is no longer part of the picture. There are now scores of people throughout the company who may not be trained as economists, but their jobs incorporate economic analysis. They often need help in locating data, interpreting data, developing models or producing forecasts. That's when I receive a call, e-mail or visit and have to be prepared to respond and work closely with them.

CORPORATE RESPONSIBILITIES

My first responsibility is to have the appropriate resources available. We subscribe (on-line and hard copy) to a number of forecasting services that cover most of the major countries where we do business. I use our Treasurers' bank contacts to obtain information daily and weekly from major commercial and investment banks. We no longer send out instant analyses of data releases. We also have ceased to publish weekly summaries of U.S. and foreign data releases, because most of our executives and managers have access to this information through our bank contacts and consultants either by fax or the Internet. While I occasionally receive a request to comment on a position taken in an outside report, I now have more time to devote to other responsibilities. I must admit, however, that I miss the discipline and the knowledge that I gained from close monitoring of day-to-day events in the major economies. I had much better recall of the statistics and events when I was publishing reports at a fast clip.

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We have a number of economic consultants on contract in Treasurers. Through internal networking and building relationships, I try to keep up to speed on the resources and consultants available from other Mobil staff and business groups, e.g., government relations, strategic planning, public affairs, new exploration ventures and regional marketing groups. Through external networking, I try to make valuable contacts that allow us to tap experts who can help us answer queries from Mobil management on a timely basis.

Membership in the National Association for Business Economics, the Conference of Business Economists and other groups brings me into contact with a wide range of contacts that are valuable when I need to discuss a problem to see if I'm on the right track to finding a solution. The many think tanks, associations and government resources available in the Washington, DC, area are an excellent means of keeping up to date on the tools and information required to get my job done. To supplement international contacts also available in Washington, I try to schedule at least one two to three-week study trip a year to gain first hand knowledge about an overseas area important to our business. I find it very useful to talk directly with economists, government officials, Mobil analysts and others experts, because quite often news reports from abroad or forecasts done from a distance distort what is actually happening in a country or region.

While I have a small a library with basic books, periodicals and statistics, my most valuable resource and tool is my laptop. In these days of reduced staff support, I could not manage without it. I can access the wealth of information available on the Internet and answer questions in a fraction of the time that it took even five years ago. E-mail has also allowed me to move further and further away from hard copy communications. I find it much easier to answer questions by e-mail. Previously, the preparation of an internal memorandum was a very formal process requiring drafting and redrafting through numerous levels of authority. With e-mail, the process is less formal, more direct and quicker. Plus, a few trees are saved. I can receive a request from Singapore when I arrive at work in the morning and have a response ready by the time I leave the office that evening in time for my colleague to have an answer at the opening of business in Singapore. In addition, interchange via e-mail facilitates the building of valuable working relationships with people you may never meet face to face. As our internal communications capabilities expand, networks are springing up which allow Mobil employees to share online resources, economic data and forecasts on a company-wide basis much more easily than before.

In spite of the changes that have taken place in Mobil over the 1990s, economic analysis still plays a

vital role in decision-making. The most important areas of my involvement are described below.

Economic Forecasting

Each year, the industry analysts in the Business Planning Group of Mobil's Supply, Transport and Trading Company prepare a long-term global energy demand and supply forecast for use by the business units as background for their Strategic Operating Reviews submitted to the Executive Committee. Using outside sources, I develop the global economic outlook upon which the energy outlook is based. We work closely starting in January to prepare the initial forecast and to provide revisions as the world inevitably changes. In late June, I provide a five-year outlook of the global economy. The paper accompanying the outlook concentrates on the risks to the outlook and what to look for to determine if the identified risks are indeed beginning to materialize.

Scenario Planning

From time to time, a business unit will ask me to participate in a scenario planning exercise. When I joined Mobil, there was an elaborate planning organization and complex planning process. Each year over a period of seven months, planners from the affiliate to the corporate level worked on individual country forecasts of GDP, energy demand/supply and public policy changes affecting the industry. All this information was compiled in a mammoth book that outlined the strategies to guide the corporation during the next five to ten years. The only problem was that the "point" forecasts were usually out of date before the book was printed and formally presented to the Executive Committee.

In the early 1990s, as new executives were appointed in planning groups, efforts were made to make the planning process and Mobil's decisionmaking more flexible and adaptable to the ever-changing environment. Scenario planning was one of the tools adopted. Scenario planning was developed in the post-World War II environment as a method for military planning and refined in the business sector by Royal Dutch Shell. It involves developing realistic scenario plots about the future through a blending of data and analysis. After story lines are refined, the primary aim is to come up with strategies in line with specified company goals under each scenario. That way, the company will be prepared when a significant change occurs in the business environment. The change, i.e., shift to a new scenario, immediately triggers a shift to the strategies appropriate to the new environment. I think economists are particularly well suited to engage in scenario planning because of our training and knowledge about industry, national and global forces affecting markets.

Risk Management

In many corporations, economic forecasting has taken a back seat to risk management. Because I am physically located in the Treasurers' organization, I interact with the traders and analysts who are actively managing Mobil's foreign exchange and bond exposures. We meet formally and informally to discuss positions as data are released and events happen that influence financial markets. We also have a foreign exchange alert system for the minor currencies that are not centrally managed through Mobil's foreign exchange bank. A member of the worldwide business organization in Treasurers coordinates this system with input from the affiliates, the capital markets group and me. We identify currencies that are under pressure. Those under the most intense pressure are followed closely, so that affiliates affected can minimize exposures to foreign exchange losses in the event of a devaluation.

Country Risk Analysis for Credit Decisions

This is another aspect of risk management. The Treasurers organization issues guidelines in the form of a list of countries for which Mobil's oil traders can provide open credit when selling crude oil and products. I use outside political risk services combined with internal analysis to compile the list and, in some cases, suggest limits on the amount of open credit that can be provided within countries that are not high but borderline moderate risks. It is recommended that deals with entities in countries not listed be carried out on a secured basis. Credit analysts, who investigate the creditworthiness of companies, in the Supply, Transportation and Trading Company disseminate my country list throughout their organization. Traders often contact me directly via e-mail when they are involved in a deal with a company located in a particularly risky country. The interchange can become quite animated, especially if the trader is very anxious to establish a long-term relationship with a customer in a high-risk country. While the trader may view me as his nemesis, I have to point out when the debate gets heated that, if

he feels that the returns are as high he estimates, then he can go ahead with the deal and assume the marketing risk. For some, that is a sobering thought, because it shifts responsibility directly to their shoulders.

Country Risk Analysis for Investment Decisions

When I first joined Mobil, I worked with the international political adviser in Corporate Planning to provide the new exploration and production ventures (NEPV) group with studies of the political and economic risks in the countries targeted for new entry. Each year, NEPV supplied us with a list and schedule of the countries they wanted us to analyze. These studies were part of the proposals for funding new projects that were submitted to the Executive Committee for approval. Today, NEPV units either hire consultants to conduct evaluations of political and economic risk or do the evaluations themselves internally. If needed, I provide information and support or suggest where to find consultants. Sometimes I review the results of an outside evaluation, and occasionally, time permitting, I still do country studies for Treasurers or a business unit.

SUMMARY

When I moved out of Corporate Planning, now called Strategic Planning, my involvement in the analysis of the impact of public policy initiatives, especially those in the fiscal and environmental areas, diminished significantly. I also no longer have the time to do types of in-depth studies of economic issues affecting the oil business that economists in Corporate Planning did prior to restructuring. While I miss the more analytic aspects of the business economist's responsibilities, I have come to accept that flexibility and adaptability are key to adding value in the current environment, which stresses cost containment. Meanwhile, I continue to enjoy my closer relations with the business people and seek to gain greater knowledge about the industry, so that I can better apply economics to business decisions.