

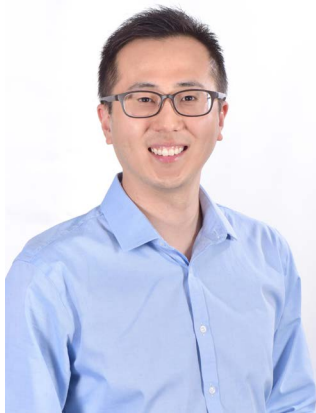
RESEARCH SEMINAR



Sept. 8 , 12:00pm - 1:00pm

ESB 243 & Zoom

Balance Sheet Strength in the Oil and Gas Industry: Saving for a Rainy Day or Making Hay While the Sun Shines



Han-Up Park

**Assistant Professor
Accounting**

This research project originated from conversations with Canadian oil and gas executives seeking insights into successful upstream operations and investment. In this talk, I'll outline our research approach and share key findings.

Abstract: Accounting plays a strategic role when accounting-based measures are used to set, communicate and execute strategy. In this paper, we describe and test a strategic role of accounting in the dynamic context of cyclical industries. Specifically, we examine how a strategic emphasis on balance sheet strength influences firm decisions and performance over time. In a series of discussions with industry insiders and through readings of disclosures for prominent oil and gas companies in Canada, we identify two groups of firms based on how they use accounting-based measures to respond to and manage industry economic cycles. One group of firms grows aggressively when oil prices are strong and funds are available – “making hay while the sun shines,” while the other group grows conservatively to build balance sheet strength – “saving for a rainy day.” Through analysis of production and financial data, we first document that rainy day companies, which focus on balance sheet strength evidenced by higher cash flows to debt over time, grow less quickly than making hay companies, except in periods following sharp price declines. Then, we compare the two groups of companies and find that rainy day companies buy assets (oil reserves) at lower prices on average and operate more efficiently than making hay companies. Our analysis brings attention to the strategic role of accounting and highlights balance sheet strength as a strategic marker for firms in cyclical industries.

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In-Person: Room 243 (Edwards)

Zoom: [Register Here](#)

TOGETHER