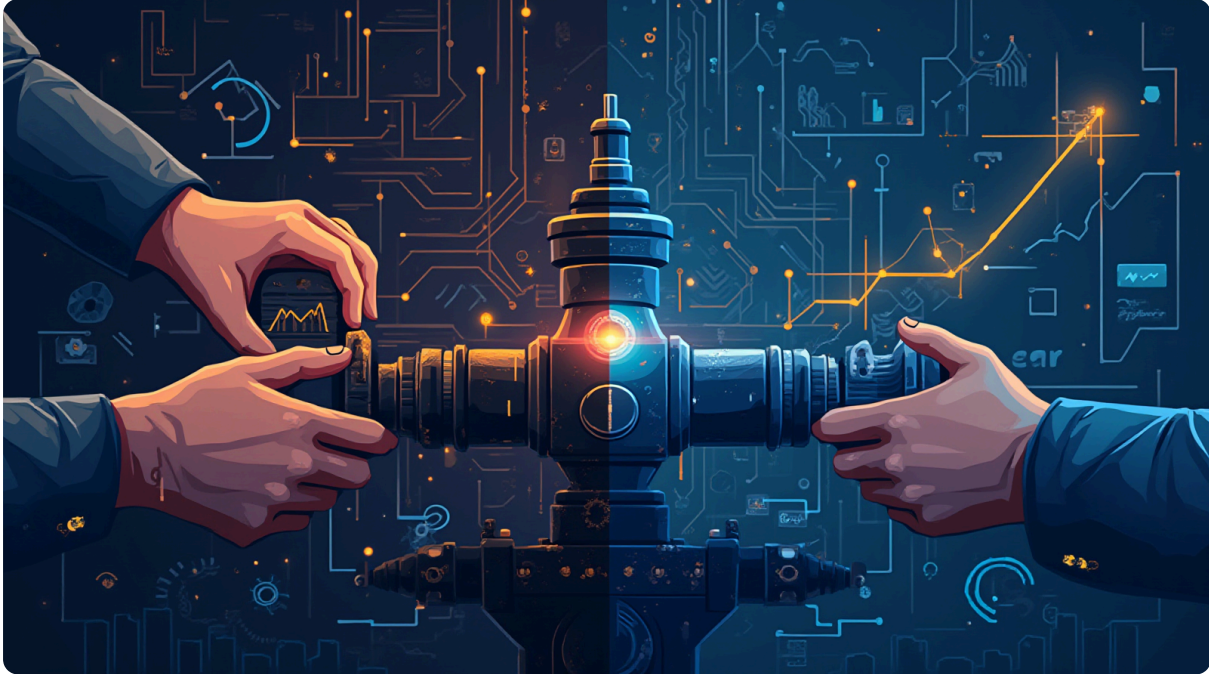


The AI Hype Cycle and the Illusion of Operational Gains

Why focusing on efficiency misses the actual value unlock in O&G.

Corporate Taboos Series · Part 3 · AI Adoption · Energy Sector · Process Improvement · Operational Strategy

The newsletter for VPs who prefer hard reality over comfortable technological possibility.



Issue Summary: The \$230 Billion Blind Spot

There is a massive amount of noise currently surrounding artificial intelligence in the upstream oil and gas sector. You see the headlines about predictive maintenance, automated drilling logs, and autonomous site monitoring. These aren't just buzzwords; they represent a multi-billion dollar opportunity to squeeze more value out of aging assets and complex supply chains.

But there is a trap. Most companies are currently chasing "efficiency" as if it were the end goal. They want AI to make their current, imperfect processes run slightly faster or with fewer manual entries. This is the blind spot. If you only use AI to optimize an existing, broken process, you aren't innovating; you're just automating your inefficiencies. To capture real value—the kind that moves the needle on EBITDA and long-term viability—leadership must move past "faster" and start looking at "different." We need to stop asking how AI can help us do what we already do better, and start asking what new things we can do now that were impossible yesterday.

The Illusion of Optimization vs. Systemic Value Capture

We have a problem with how we define success in the current cycle. I call it **The Efficiency Fallacy**.

The Efficiency Fallacy is the belief that adding an AI layer to a manual process—like transcribing geological data or scheduling maintenance crews—constitutes a fundamental shift in operations. It does not. If you use an algorithm to schedule a truck, but the underlying logistics contract and route planning logic remain stagnant, you haven't changed your business; you've just shortened the time it takes to reach the same mediocre result.

AI is not a magic wand for old problems. A tool that automates a "wasteful" step only makes that waste happen faster. To move from optimization to systemic value capture, we have to look at the work itself.

Instead of asking, "How can AI make our drilling reports faster?" the question must be: "How does real-time data flow change what we are willing to risk on a well site?" One is an IT project; the other is a business transformation. The first keeps you in your current lane; the second builds a new road entirely. We need to stop treating AI as a plug-in for our existing workflow and start treating it as a catalyst for redesigning those workflows from the ground up.

Why Does Incrementalism Win Over Transformation?

It is tempting to settle for incremental wins because they are easy to sell to stakeholders. It is much easier to get a budget approved for "Automated Data Entry" than for "Complete Redesign of our Supply Chain Procurement Model." One feels like an upgrade; the other feels like a risk.

We often choose the path of least resistance because it offers immediate, measurable gratification—even if that reward is small and fleeting. We see a pilot program save five minutes on a technician's daily log and we call it a success. But those five minutes are just a band-aid on a gaping wound in our operational strategy.

The Comfortable Rationalization (The "Easy" Win)	The Underlying Reality (The Strategic Cost)
"We need to use AI to make the current reporting process faster."	We are spending money to automate a report that nobody actually uses to make decisions.
"Let's start with an easy win in data entry before we tackle the big stuff."	We are delaying the hard work of contract negotiation and process overhaul until it's too late.
"We just need the right software to handle the heavy lifting."	Software cannot fix a broken workflow; it only hides the flaws behind a prettier interface.
"Let's automate what we have today."	We are perfecting an obsolete way of doing business while our competitors rethink their entire model.

What Are We Really Paying For (The Cost of Waiting)?

When you choose the easy path of incremental optimization, you aren't just avoiding a difficult conversation; you are choosing to pay a "laziness tax" later.

In many O&G operations, the real cost isn't that the AI technology fails to work. The risk is that the technology works perfectly, but it sits on top of a foundation that wasn't built for it. If your contracts with vendors are still based on manual oversight, or if your internal teams are still incentivized by "volume" rather than "accuracy," then an AI tool won't change those behaviors.

The cost of waiting is the loss of competitive advantage in the high-stakes reality of the field. While a competitor takes the hard road—renegotiating contracts, retraining staff on new decision-making protocols, and redesigning their workflow for autonomous inputs—you are spending your capital to make your manual processes slightly more "efficient."

You aren't just paying for software; you are paying for the time it takes to realize that a faster way of doing something wrong is still just a way of doing it wrong. The gap between those who use AI as an **add-on** and those who use it as a **foundation** will become massive in the next three years.

Capturing Value: Three Non-Negotiable Shifts for O&G Leaders

To move past the hype and into actual value, leadership must pivot on these three specific fronts. This isn't about "better" software; it's about different thinking.

1. From Cost Reduction to Revenue Creation

Stop asking how AI can lower your overhead by 5%. Start asking what new services or products you can offer because of the data insights AI provides. For example, instead of using predictive maintenance just to avoid a repair bill (cost reduction), use it to guarantee "uptime" as a premium service for your clients (revenue creation).

2. From Tool Integration to Process Redesign

Don't just give an existing process an AI tool; redesign the process so that the human role changes from "data entry" to "exception management." If a technician is still spending half their day inputting data into a system, you haven't changed the process—you've only automated the typing. The goal is for the technology to handle the routine so the people can focus on the high-value decisions.

3. From Software Installation to Contractual Evolution

This is where most companies fail. If your business model relies on manual oversight and "human-in-the-loop" verification at every step, you cannot scale with AI. You must be willing to update your legal frameworks, your vendor agreements, and your safety protocols to account for automated decision-making. If the contract doesn't allow for it, the software can't do it either.

Practical Takeaways: On Your Next Gemba Walk...

When you walk the line or visit the site next week, don't talk about "AI" as a buzzword. Talk about work. You are looking for where the process stalls and where people get frustrated with repetitive tasks.

Instead of asking your team, *"How much time would this AI tool save you?"* ask these three questions:

1. **Identify the Waste:** "What part of your daily routine is so repetitive that it prevents you from doing the actual skilled work you were hired to do?"
2. **Challenge the Status Quo:** "If we could automate this specific task today, what *new* thing would you want to spend your time on instead? What's a problem you've been wanting to solve but haven't had the time for?"
3. **Find the Friction Point:** "Where does our current process require someone to manually 'fix' or 'verify' something because the system we use is too rigid?"

Your goal is to find where the human element is being wasted on mechanical tasks. When you find those spots, don't just look for a way to make them faster—look for a way to eliminate the need for that step entirely.

Stop looking for ways to make your current team "more productive" at their old jobs. Start looking for how these tools allow them to do better, more impactful work. The difference between an optimized process and a transformed one is exactly what determines whether you'll be leading the market or just trying to keep up with it.

Call to Action

What is one 'AI project' in your organization today that only optimizes, but doesn't fundamentally change how you make money? Share this with a colleague who needs an honest diagnosis.

Newsletter replies: newsletter@sixsigmakaizen.com · X: [@kaizen_6sigma](https://twitter.com/kaizen_6sigma)

Stay curious, stay improving,

David Rodgers

SixSigmaKaizen.com

References: McKinsey: Can upstream oil and gas produce value from AI's \$230 billion pay zone?