

MINI CASE: WHAT IS THE BEST ORGANIZATIONAL STRUCTURE FOR THE ROYAL DUTCH/SHELL GROUP?

Royal Dutch Shell p.l.c. commonly known as “Shell” is one of the six “supermajor” oil and gas companies. Shell is the second-largest energy company and the fifth-largest company in the world according to *Forbes* magazine list for 2011. Shell’s revenues were \$470 billion in 2011 and it employs more than 90,000 workers. Shell began in a unique way compared with other oil and gas supermajors. Royal Dutch Shell PLC was founded in February 1907 when two companies merged: The Royal Dutch Petroleum Company (which had the legal name Koninklijke Nederlandsche Petroleum Maatschappij) and the “Shell” (the quotation marks were part of the legal name) Transport and Trading Company Ltd of Great Britain.

The merger was an effort to globally compete with the then predominant petroleum company Standard Oil, owned by John D. Rockefeller. Under the terms of the merger, the Dutch group owned 60 percent and the British group owned 40 percent of the new company (the ratio is the same today). Shell is the world’s biggest and oldest joint venture. The Royal Dutch Petroleum Company was a Dutch company created in 1890, and the “Shell” Transport and Trading Company was a British company founded in 1897.

Shell is also unique for its organizational structure and its global presence. Shell has been characterized as one of the world’s three most international organizations; the other two, the Roman Catholic Church and the United Nations. At the same time, Shell’s organiza-

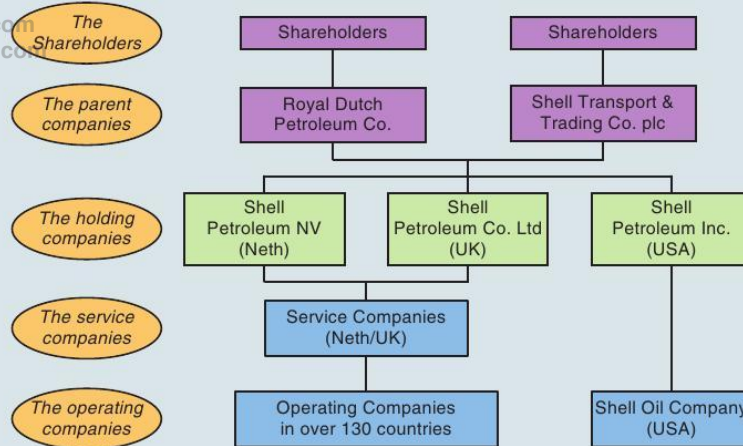
tional structure is far more complex than the Roman Catholic Church or the United Nations. From an ownership and legal perspective, Shell comprises four types of company: The parent companies, the group holding companies, the service companies, and the operating companies. This formal structure of Shell is presented in Exhibit 10.12.

During the early 1960s, with the help of McKinsey & Company, Shell created a tri-dimensional matrix structure known as the Shell Matrix, which had functions, regions, and sectors. The Shell Matrix is presented in Exhibit 10.13. This matrix organization continued into the 1990s.

Shell was the only major oil company that did not undergo radical restructuring between 1985 and 1993. The absence of restructuring at Shell appeared to reflect two factors: 1) Shell’s flexibility had meant that Shell had been able to adjust to a changing oil industry environment without the need for discontinuous change; and 2) because of Shell’s management structure, in particular the lack of a CEO with autocratic powers, Shell was much less able to initiate the kind of top-down restructuring driven by powerful CEOs such as Larry Rawl at Exxon, or Jim Kinnear at Texaco. In contrast, managerial control of Shell was vested in the Committee of Managing Directors (CMD).

On March 29, 1995, Cor Herkströter, Shell’s Chairman of the CMD, gave a speech to Shell’s worldwide employees outlining the principal aspects of a radical reorganization

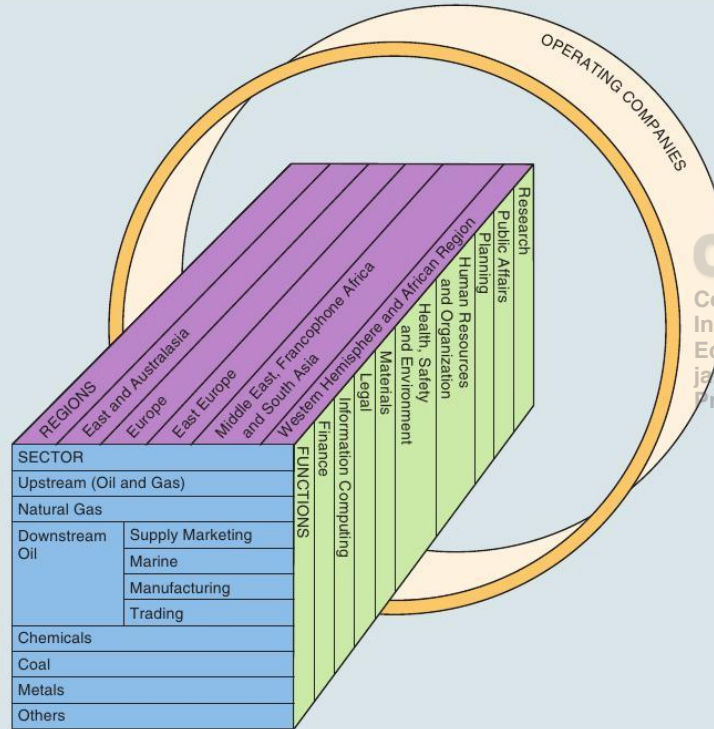
EXHIBIT 10.12 THE FORMAL STRUCTURE OF SHELL



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EXHIBIT 10.13 THE SHELL MATRIX



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of the company, which were to be implemented at the beginning of 1996. Four years later, Shell finalized what would be the most ambitious and far-reaching organizational restructuring since the start of the company. The new structure represented a move from a geographically-based company to a business sector-based firm. The restructuring also included the elimination of more than 1,000 corporate positions, the sale of a vast majority of its headquarters in London, and the redesign of its coordination and control systems.

At the same time, because Exxon, Shell's biggest competitor, was merging with Mobil, Shell was no longer the world's largest energy company. In addition, several other major oil and gas companies were joining the trend of mergers and restructurings. For example, two of Shell's state-owned European rivals were being re-energized by mergers and privatizations. In 1999, the merger of Total, Fina, and Elf Aquitaine created the world's fourth oil and gas supermajor, after ExxonMobil,

Shell, and BP. Also in the 1990s, the Italian multinational oil and gas company Eni S.p.A. was transformed from a public corporation into a joint stock company when most of Eni's share capital was put on the market in four successive public issues. Lastly, as described in the opening vignette to this chapter, 2009 brought another wave of organizational restructuring to Shell.

QUESTIONS:

- 1) What are some advantages and disadvantages of the Shell Matrix?
- 2) Why do you think Shell has undergone so many organizational restructurings?
- 3) How would you decide what would be Shell's best organizational structure?

Source: Robert M. Grant "Organizational Restructuring within the Royal Dutch/Shell Group," Cases to Accompany Contemporary Strategy Analysis, 5th ed., Hoboken, New Jersey: Blackwell Publishing, 2005.

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