

# Shell case study

Education



**ASSIGN  
BUSTER**

The Case Study on “ Organizational change at Royal Dutch/Shell” This case study on “ Organizational Change at Royal Dutch/Shell” deals with the organizational change that the world’s largest non-state-owned oil company made to respond its operating environmental changes in 1990s (Hill, C 2005, pp. 476-477) While there are a few different structures of global organizations such as worldwide area structure, worldwide product divisional structure and global matrix structure, the Anglo-Dutch company Royal Dutch/Shell (hereinafter Shell) decided to be structured with a matrix structure from the 1950s until 1994.

Under the matrix structure, the head of each operating company reported to two bosses; one boss was responsible for the geographical region or country and the other was responsible for the business activity worldwide (Shell’s business activities included oil exploration and production, oil products, chemicals, gas and coal). There were two major benefits that Shell enjoyed from this matrix structure for about 40 years. First, their decision making process was based on the consensus building between the two bosses. Because of its side effects such as slow and cumbersome process, it might be not proper for some organizations.

However as the nature of Shell’s business environment is that most big decisions are long-term ones that involve huge capital expenditures and as a result they could review thoroughly all the big decisions, this decision making process was beneficial to the company. Second, this slow decision making process caused substantial decentralization by default to the heads of the individual operating companies. Thanks to this decentralization, Shell

could respond to local differences in government regulations, competitive conditions and consumer tastes.

Even though there were drawbacks such as slow and cumbersome process, the matrix structure fit the environment of the global oil and chemical industries in the 1980s. In the 1980s, Shell sought to grow through acquisition. It bought out the remaining 30% shareholding in Shell Oil in 1985 to consolidate its American operations. While the oil price plummeted in the winter of 1986 when the price fell from \$31 per barrel to \$10, Shell managed its budget by half: the company had to work much harder to develop new projects more cheaply. As a result, Shell could make huge improvements in drilling techniques such as slim-hole drilling and directional drilling. The use of 3D seismic became widespread. (from Shell's official homepage; 1980s to the new millennium). All of these activities worked well under the matrix structure of Shell until the end of 1980s. There was a huge environmental change in 1990. It's the Gulf War. The Iraqi invasion of Kuwait, partly prompted by the low price of oil, led to uncertainty about production and prices spiked. Iraq wanted to gain control of the world's third largest oil producer to give it more control over the world market.

Following the Gulf war to liberate Kuwait, crude oil prices entered a period of steady decline, reaching their lowest level in 1994 for 21 years (BBC, Why the oil price keeps rising, June 2008). As the oil prices declined, naturally there was pressure on Shell's profit margins. Although it had traditionally been among the most profitable oil companies in the world, its relative performance began to slip in the early 1990s as its competitors adapted rapidly to the environment changes. As a result, this suggested that the Shell

senior management team review its strategy and the fit between strategy and organizational structure.

In 1995, Shell abandoned its 40 year old matrix structure and adopted divisional line structure based on its new strategy to lower the operating costs just as its competitors did. Under the new divisional line structure, Shell now operates with five global product divisions- exploration and production, oil products, chemical, gas and coal. The difference between the organization after 1995 and that before 1994 is that the power of the each global division will increase and the responsibilities of the country (or regional) chefs are reduced.

The Shell's change led to enhanced fit between operating environment, strategy and organizational architecture. As mentioned earlier, Shell's operating environment changed in the early of 1990s with continuing slack demand for oil and weak oil price which caused pressure on profit margins. In order to overcome the challenges, Shell changed its strategy to lowering operating costs by a sharp reduction in head office overhead and the elimination of unnecessary duplication of facilities across countries.

This new strategy could be achieved via the change of its reorganization in 1995 from matrix organization to divisional lines structure. As a result of the change, Shell could reduce the need for a large head office bureaucracy and eliminated unnecessary duplication of facilities across countries. Eventually, production may be consolidated in larger facilities that serve an entire region, rather than a single country, with which it could enjoy the greater scale economies. In summary, Shell's organizational structure change in 1995

could contribute its business strategy changes which were driven by the operating environment changes.