

Reorganizing the royal dutch shell group



The Royal Dutch/Shell Group is the world's biggest and oldest joint venture formed in 1907. During XX century the company expanded into multiple business areas such as oil, gas, chemicals, metal, coal etc. In 1998, the Royal Dutch/Shell Group was a company with a market capitalization of \$178 billion, \$128 billion in annual revenues, 101, 000 employees, and operating in 130 countries around the globe.

The aspect of structure was extremely important in order to run such a giant organization. Although until 1990's the Group hadn't made any steps towards changing their unique, formal structure, but then it became apparent that reorganizing has to take place for organization to survive in the rapidly changing modern environment. Understanding this, Shell made a decision to restructure the company, but to do that successfully they had to start with the analysis of the old structure.

The problems of the old structure From analysis of the pre-1995 structure of Shell Group, it is possible to identify a number of problems. One of the problems was large corporate bureaucracy. Bureaucracy in its ideal form is characterized by a hierarchical authority structure, specialist functions, strict separation of work from non-work activities, and control by written rules. The main features of bureaucracy are specialization through a " systematic division of labor" with clear job definitions and individual authority limited to the sphere of work responsibilities, and each lower office is under the control and supervision of a higher office.

This results in the slow-down of the process of decision making as no decision can be made without confirming it with the higher levels and

therefore it takes a long time for information to travel through multiple layers of the organization, and it is getting even more complicated because most of communication has to be done in the written form. This leads to a common thought that bureaucracy is a serious threat to efficiency. Read Royal Dutch Shell PESTLE analysis

The bureaucratic form of an organization is highly formalized, eliminating most of the features that characterized human societies and human behavior: cooperation, innovation, personality variation and emotion. For example, employees may be afraid of being caught in error and losing their job or at least being shunted off into isolated and unpleasant positions. Therefore their commitment to the organization is low, and their main defense is going along with the system: following the rules and documenting that they have done so, avoiding risk, off loading responsibilities and, on occasion, doing nothing.

It has to be said, though, that at the moment bureaucracy is still considered by many as a superior form of organization, however in the case of Shell negative effect of it is seen in regards to volatile environment and effect on personality. Another problem in the old structure of Shell Group was coordination which was based on geographical regions, each having its own operating powers and financial responsibilities. Shell became highly decentralized, and as the company was expanding into new business sectors it became hard to control different divisions of businesses by area and very inefficient cost wise.

In each area there was more workforce needed due to the Shell's involvement in new business sectors. The cost of human resources rose dramatically as well as head office costs. This led Shell to the thought of a necessary change. They have realized that achieving integration between different businesses within the country or within the region was less important than achieving integration within the business across different countries and regions.

In the beginning of 1970's Shell saw itself as a very confident, self-satisfied company, proud of its uniqueness in terms of joint venture and internationality. This made it deflected from external environment, and especially not enough attention was paid to the competitors. In the meantime the oil producing countries e. g. Russia, Kuwait were becoming stronger and the sharp rise in the price of oil shook the world. The further underestimation of competitors led to the financial difficulties. The market share decreased and situation got even worse when oil prices dropped down heavily to \$9 per barrel.

In the early 1990's Shell got hit again when refining and chemicals suffered from widespread excess capacity and price wars. In addition investors and the financial community were putting increased pressure on companies for improved return to shareholders. Increasing pressure on Shell and their underperformance showed to which extent they were inward looking, concentrating only on internal issues. This was another problem of the old structure. All the aspects of external environment were extremely important to consider if Shell was to remain in the leading position in the global market.

It was clear from the outset that the restructuring was extremely complex involving a multitude of difficult issues in the areas of portfolio choice (which businesses were to remain with Shell and which would be offered for sale) and the reporting structure of the organisation. Which part of the business was to be divested, how this business interacted with other businesses and the legal affairs attached to this divestment (may be through establishment of new legal entities). Identification of Critical Success Factors is crucial and they MUST be 'done well' in order to ensure successful achievement of the strategies (in the case of Shell the strategy was corporate restructuring). These are often determined by: external forces, for example legislative requirements, customer expectations; or internal issues, such as resource allocation or skills mix.