



# ICM

MARCH 2018

CONTEMPORARY STRATEGIC MANAGEMENT – PRE-ISSUED CASE STUDY & GUIDELINES

The following provides details on a case study involving **ROYAL DUTCH SHELL**. Candidates should read this case study carefully in preparation for the examination.

**Note:** A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to take this case study into the examination room. Candidates are allowed to take into the examination a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the answer script.

**DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with answer script.**

Researching, preparing and understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the answer script. They should be word-processed (min. word size 12 pt) and contain key headings and areas relating to the strategic analysis of **ROYAL DUTCH SHELL** and should provide the analysis underpinning required to answer the examination questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case [5 marks]
- Outline of FOUR strategic models relevant to the case analysis [5 marks]
- Report structure, readability and legibility [5 marks]

*N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.*



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## CONTEMPORARY STRATEGIC MANAGEMENT CASE STUDY – ROYAL DUTCH SHELL

### INTRODUCTION

Royal Dutch Shell plc, commonly known as Shell, is a British-Dutch multinational oil and gas company headquartered in the Netherlands and incorporated in the United Kingdom. It is one of the six oil and gas “supermajors” and the sixth-largest company in the world measured by 2016 revenues (and the largest based in Europe). Shell was first in the 2013 Fortune Global 500 list of the world’s largest companies; in that year its revenues were equivalent to 84% of the Netherlands’ \$556 billion GDP.

Shell is vertically integrated and is active in every area of the oil and gas industry, including exploration and production, refining, distribution and marketing, petrochemicals, power generation and trading. It also has renewable energy activities in the form of biofuels, wind and hydrogen. Shell has operations in over 70 countries, produces around 3.7 million barrels of oil equivalent per day and has 44,000 service stations worldwide. Shell also has total proven reserves of 13.7 billion barrels of oil equivalent.

The company first entered the chemicals industry in 1929. In 1970 Shell acquired the mining company Billiton, which it subsequently sold in 1994 and now forms part of BHP Billiton. In recent decades gas exploration and production has become an increasingly important part of Shell’s business. Shell acquired BG Group in 2016, making it the world’s largest producer of liquefied natural gas (LNG).

It has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. It had a market capitalisation of £185 billion at the close of trading on 30 December 2016, by far the largest of any company listed on the London Stock Exchange and among the highest of any company in the world. Shell’s logo, known as the “pecten”, is one of the most familiar commercial symbols in the world.

### HISTORY

#### Origins

The Royal Dutch Shell Group was created in February 1907 through the amalgamation of two rival companies: the Royal Dutch Petroleum Company of the Netherlands and the Shell Transport and Trading Company Limited of the United Kingdom. It was a move largely driven by the need to compete globally with Standard Oil. The Royal Dutch Petroleum Company was a Dutch company founded in 1890 to develop an oilfield in Pangkalan Brandan, North Sumatra. The “Shell” Transport and Trading Company (the quotation marks were part of the legal name) was a British company, founded in 1897 by Marcus Samuel, 1st Viscount Bearsted, and his brother. Their father had owned an antique company in Houndsditch, London, which expanded in 1833 to import and sell seashells, after which the company “Shell” took its name.

For various reasons, the new firm operated as a dual-listed company, whereby the merging companies maintained their legal existence, but operated as a single-unit partnership for business purposes. The terms of the merger gave 60 percent ownership of the new group to the Dutch arm and 40 percent to the British.

National patriotic sensibilities would not permit a full-scale merger or takeover of either of the two companies. The Dutch company, Koninklijke Nederlandsche Petroleum Maatschappij at The Hague, was in charge of production and manufacture. The British Anglo-Saxon Petroleum Company was based in London, to direct the transport and storage of the products.

#### 20th century

During the First World War, Shell was the main supplier of fuel to the British Expeditionary Force. It was also the sole supplier of aviation fuel and supplied 80 percent of the British Army’s TNT. It also volunteered all of its shipping to the British Admiralty.

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The German invasion of Romania in 1916 saw 17% of the group's worldwide production destroyed.

In 1919, Shell took control of the Mexican Eagle Petroleum Company and in 1921 formed Shell-Mex Limited which marketed products under the "Shell" and "Eagle" brands in the United Kingdom. In 1929, Shell Chemicals was founded. By the end of the 1920s, Shell was the world's leading oil company, producing 11 percent of the world's crude oil-supply and owning 10 percent of its tanker tonnage.

Shell Mex House was completed in 1931, and was the head office for Shell's marketing activity worldwide. In 1932, partly in response to the difficult economic conditions of the times, Shell-Mex merged its UK marketing operations with those of British Petroleum to create Shell-Mex and BP, a company that traded until the brands separated in 1975.

The 1930s saw Shell's Mexican assets seized by the local government. After the invasion of the Netherlands by Germany in 1940, the head office of the Dutch companies was moved to Curacao. In 1945 Shell's Danish headquarters in Copenhagen, at the time being used by the Gestapo, was bombed by Royal Air Force Mosquitoes in Operation Carthage.

Around 1952, Shell was the first company to purchase and use a computer in the Netherlands. The computer, a Ferranti Mark 1, was assembled and used at the Shell laboratory in Amsterdam.

## **21st century**

In November 2004, following a period of turmoil caused by the revelation that Shell had been overstating its oil reserves, it was announced that the Shell Group would move to a single capital structure, creating a new parent company to be named Royal Dutch Shell plc, with its primary listing on the London Stock Exchange, a secondary listing on the Amsterdam Stock Exchange, its headquarters and tax residency in The Hague, Netherlands and its registered office in London. The unification was completed on 20 July 2005 and the original owners delisted their companies from the respective exchanges.

During the 2009 Iraqi oil services contracts tender, a consortium led by Shell (45%) and which included Petronas (30%) was awarded a production contract for the "Majnoon field" in the south of Iraq, which contains an estimated 12.6 billion barrels of oil. The "West Qurna 1 field" production contract was awarded to a consortium led by ExxonMobil (60%) and included Shell (15%).

Over the course of 2013, the corporation began the sale of its US shale gas assets and cancelled a US\$20 billion gas project that was to be constructed in the US state of Louisiana. A new CEO was appointed in January 2014, prior to the announcement that the corporation's overall performance in 2013 was 38 per cent lower than 2012 – the value of Shell's shares fell by 3 per cent as a result. Royal Dutch Shell announced on 8 April 2015 it had agreed to buy BG Group for £47 billion (US\$70 billion), subject to shareholder and regulatory approval. The acquisition was completed in February 2016, resulting in Shell surpassing Chevron Corporation and becoming the world's second largest non-state oil company.

In January 2017, Royal Dutch Shell agreed to sell £2.46bn worth of North Sea assets to oil exploration firm Chrysaor. Later that year Shell sold its oil sands assets to Canadian Natural Resources in exchange for approximately 8.8% stake in that company. In May 2017, it was reported that Shell planned to sell its shares in Canadian Natural Resources fully exiting the oil sands business.

## **STRUCTURE AND MANAGEMENT ISSUES**

August 2005 saw the board of directors announce the appointment of Jorma Ollila, chairman and CEO of Nokia at the time, to succeed Aad Jacobs as the company's non-executive chairman. Ollila is the first Shell chairman to be neither Dutch nor British. Ben van Beurden has been the CEO of Shell since January 2014.

## **Name and logo**

The name Shell is linked to The "Shell" Transport and Trading Company. In 1833, the founder's father, Marcus Samuel Sr., founded an import business to sell seashells to London collectors. When collecting seashell specimens in the Caspian Sea area in 1892, the younger Samuel realised there was potential in exporting lamp oil from the region and commissioned the world's first purpose-built oil tanker, the Murex (Latin for a type of snail shell), to enter this market; by 1907 the company had a fleet. Although for several decades the company had a refinery at Shell Haven on the Thames, there is no evidence of this having provided the name.

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The Shell logo is one of the most familiar commercial symbols in the world. This logo is known as the “pecten” after the sea shell *Pecten maximus* (the giant scallop), on which its design is based. The yellow and red colours used are thought to relate to the colours of the flag of Spain, as Shell built early service stations in California, previously a Spanish colony.

## OPERATIONS

Shell is currently organised into four major business groupings.

- **Upstream** – manages the upstream business. It searches for and recovers crude oil and natural gas and operates the upstream and midstream infrastructure necessary to deliver oil and gas to the market. Its activities are organised primarily within geographic units, although there are some activities that are managed across the business or provided through support units.
- **Integrated Gas and New Energies** – manages liquefying natural gas, converting gas to liquids and low-carbon opportunities.
- **Downstream** – manages Shell’s manufacturing, distribution and marketing activities for oil products and chemicals. Manufacturing and supply includes refinery, supply and shipping of crude oil.
- **Projects and Technology** – manages the delivery of Shell’s major projects, provides technical services and technology capability covering both upstream and downstream activities. It is also responsible for providing functional leadership across Shell in the areas of health, safety and environment, and contracting and procurement.

### Oil and gas activities

Shell’s primary business is the management of a vertically integrated oil company. The development of technical and commercial expertise in all stages of this vertical integration, from the initial search for oil (exploration) through its harvesting (production), transportation, refining and finally trading and marketing established the core competencies on which the company was founded. Similar competencies were required for natural gas, which has become one of the most important businesses in which Shell is involved, and which contributes a significant proportion of the company’s profits. While the vertically integrated business model provided significant economies of scale and barriers to entry, each business now seeks to be a self-supporting unit without subsidies from other parts of the company.

Traditionally, Shell was a heavily decentralised business worldwide (especially in the downstream) with companies in over 100 countries, each of which operated with a high degree of independence. The upstream tended to be far more centralised with much of the technical and financial direction coming from the central offices in The Hague. The upstream oil sector is also commonly known as the “exploration and production” sector.

Downstream operations, which now also includes the chemicals business, generates a third of Shell’s profits worldwide and is known for its global network of more than 40,000 petrol stations and its various oil refineries. The downstream business, which in some countries also included oil refining, generally included a retail petrol station network, lubricants manufacture and marketing, industrial fuel and lubricants sales and a host of other product/market sectors such as LPG and bitumen. The practice in Shell was that these businesses were essentially local and that they were best managed by local “operating companies” – often with middle and senior management reinforced by expatriates.

### Sponsorships

Shell has a long history of motorsport sponsorship – most notably with Scuderia Ferrari, BRM, Toro Rosso, McLaren, Lotus and Hyundai. This association has been terrific in promoting the company name over decades as being synonymous with motorsport in general.

## OVERSEAS OPERATIONS

### AFRICA

Shell began drilling for oil in Africa during the 1950s. They began production in Nigeria in 1958. Shell operates in the upstream oil sector in Algeria, Cameroon, Egypt, Gabon where there is the giant Rabi-Kounga oil field, Ghana, Libya, Morocco, Nigeria, South Africa and Tunisia; and in the downstream sector in 16 other countries. In Nigeria, Shell told US diplomats that it had placed staff in all the main ministries of the government. In April 2010, Shell announced its intention to divest from downstream business of all African countries except South Africa and Egypt to Vitol and “Helios”. In several countries such as Tunisia, protests and strikes broke out. Shell denied rumours of the sell-out.

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Shell continues, however, upstream activities/extracting crude oil in the oil-rich Niger Delta as well as downstream/commercial activities in South Africa. In June 2013, the company announced a strategic review of its operations in Nigeria, hinting that assets could be divested. In August 2014, the company disclosed it was in the process of finalising the sale of its interests in four Nigerian oil fields.

## **ASIA**

### **Hong Kong**

Shell has been active in Hong Kong for a century, providing Retail, LPG, Commercial Fuel, Lubricants, Bitumen, Aviation, Marine and Chemicals services and products. The company also sponsored the first Hong Kong-built aircraft, 'Inspiration', for its around-the-world trip.

### **Malaysia**

Shell discovered the first oil well in Malaysia in 1910, in Miri, Sarawak. Today the oil well is a state monument known as the Grand Old Lady. In 1914, following this discovery, Shell built Malaysia's first oil refinery and laid a submarine pipeline in Miri.

### **Philippines**

Royal Dutch Shell operates in the Philippines under its subsidiary, Pilipinas Shell Petroleum Corporation. Its headquarters is in Makati City and it has facilities in the Pandacan oil depot and other key locations. On January 2010, the Bureau of Customs claimed 7.34 billion pesos worth of unpaid excise taxes against Pilipinas Shell for importing Catalytic cracked gasoline (CCG) and light catalytic cracked gasoline (LCCG) stating that those imports are bound for tariff charges.

### **Singapore**

Shell has a strong presence in Singapore, indeed Singapore is the main centre for Shell's petrochemical operations in Asia Pacific region. Shell Eastern Petroleum Limited (SEPL) have their refinery located in Singapore's Pulau Bukom Island. They also operate as Shell Chemicals Seraya in Jurong Island.

## **EUROPE**

### **Ireland**

Shell first started trading in Ireland in 1902. Shell E&P Ireland (SEPIL) (previously Enterprise Energy Ireland) is an Irish exploration and production subsidiary of Royal Dutch Shell. Its headquarters are on Leeson Street in Dublin. It was acquired in May 2002. Its main project is the Corrib gas project, a large gas field off the northwest coast, for which Shell has encountered controversy and protests in relation to the onshore pipeline and licence terms.

In 2005 Shell disposed of its entire retail and commercial fuels business in Ireland to Topaz Energy Group. This included depots, company-owned petrol stations and supply agreements stations throughout the island of Ireland. The retail outlets were re-branded as Topaz in 2008/9.

### **Nordic countries**

August 2007 saw Royal Dutch Shell and Reitan Group announce an agreement to re-brand some 269 service stations across Norway, Sweden, Finland and Denmark, subject to obtaining regulatory approvals under the different competition laws in each country. In April 2010 Shell announced that the corporation was in the process of trying to find a potential buyer for all of its operations in Finland and was doing similar market research concerning Swedish operations. In October 2010 Shell's gas stations and the heavy vehicle fuel supply networks in Finland and Sweden, along with a refinery located in Gothenburg, Sweden were sold to St1, a Finnish energy company, more precisely to its major shareholding parent company Keele Oy.

### **United Kingdom**

In the UK sector of the North Sea Shell employs around 4,500 staff in Scotland as well as an additional 1,000 service contractors: however, in August 2014 it announced it was laying off 250 of them, mainly in Aberdeen.

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## **NORTH AMERICA**

Through most of Shell's early history, the Shell Oil Company business in the United States was substantially independent with its stock being traded on the NYSE and with little direct involvement from the group's central offices in the running of the American business. However, in 1984, Royal Dutch Shell made a bid to purchase those shares of Shell Oil Company it did not own (around 30%) and despite opposition from some minority shareholders, which led to a court case, Shell completed the buyout for a sum of \$5.7 billion.

## **AUSTRALIA**

Following the decision by the Royal Dutch Shell fuel corporation to close its Geelong, Australia refinery in April 2013, a third consecutive annual loss was recorded for Shell's Australian refining and fuel marketing assets. Revealed in June 2013, the loss was A\$203 million, and was preceded by a A\$638m loss in 2012 and a A\$407m loss in 2011, after the closure of the Clyde refinery in Sydney, Australia.

On February 2014, Shell sold its Australian refinery and petrol stations for US\$2.6 billion (A\$2.9 billion) to Vitol, a Geneva-based company. Vitol stated that the Geelong refinery will remain open, as the company plans to expand further into the Australian market.

## **ALTERNATIVE ENERGY**

In the early 2000s Shell moved into alternative energy and there is now an embryonic "Renewables" business that has made investments in solar power, wind power, hydrogen, and forestry. The forestry business went the way of nuclear, coal, metals and electricity generation, and was disposed of in 2003. In 2006 Shell paid SolarWorld to take over its entire solar business and in 2008, the company withdrew from the London Array which has become the world's largest offshore wind farm.

Shell also is involved in large-scale hydrogen projects. HydrogenForecast.com describes Shell's approach thus far as consisting of "baby steps", but with an underlying message of "extreme optimism". Shell holds 50% of Raízen, a joint venture with Brazilian sugarcane producer Cosan which is the third-largest Brazil-based energy company by revenues and a major producer of ethanol.

## **CONTROVERSIES**

Shell has been criticised for its businesses in Africa, notably in relation to protests of the Ogoni in 1995. In the 1990s, protesters criticised the company's environmental record, particularly the possible pollution caused by the proposed disposal of the Brent Spar platform into the North Sea. Despite support from the UK government, Shell reversed the decision under public pressure but maintained that sinking the platform would have been environmentally better. Shell subsequently published an unequivocal commitment to sustainable development, supported by executive speeches reinforcing this commitment.

### **2004 overstatement of oil reserves**

In 2004 Shell overstated its oil reserves, resulting in loss of confidence in the group, a £17 million fine by the Financial Services Authority and the departure of the chairman Philip Watts. A lawsuit resulted in the payment of \$450 million to non-American shareholders in 2007.

### **Corporate communications**

Shell's advertising regarding its renewable energy business has been described as a greenwash by some environmental lobbies, leading to criticism from the British Advertising Standards Authority which ruled that Shell had misled the public in an advertisement when it claimed that a \$10 billion oil sands project in Alberta, Canada was a "sustainable energy source".

### **Health and safety**

A number of incidents over the years led to criticism of Shell's health and safety record, including repeated warnings by the UK Health and Safety Executive about the poor state of the company's North Sea platforms.

## **Human rights**

In the beginning of 1996, several human rights groups brought cases to hold Shell accountable for alleged human rights violations in Nigeria, including summary execution, crimes against humanity, torture, inhumane treatment and arbitrary arrest and detention. In particular, Shell stood accused of collaborating in the execution of Ken Saro-Wiwa and eight other leaders of the Ogoni tribe of southern Nigeria, who were hanged in 1995 by Nigeria's then military rulers. The lawsuits were brought against Royal Dutch Shell and Brian Anderson, the head of its Nigerian operation. In 2009, Shell agreed to pay \$15.5m in a legal settlement. Shell has not accepted any liability over the allegations against it.

In 2009, Shell was the subject of an Amnesty International report into the deterioration of human rights as a consequence of Shell's activities in the Niger Delta. In particular, Amnesty criticised the continuation of gas flaring and Shell's slow response to oil spills. In 1998, on its first public report on community and environmental issues in Nigeria, Shell promised "to end the practice of gas flaring in ten years, while pledging to establish a youth training scheme in Ogoniland".

In 2010, a leaked cable revealed that Shell claims to have inserted staff into all the main ministries of the Nigerian government and know "everything that was being done in those ministries", according to Shell's top executive in Nigeria. The same executive also boasted that the Nigerian government had forgotten about the extent of Shell's infiltration. Documents released in 2009 (but not used in the court case) reveal that Shell regularly made payments to the Nigerian military in order to prevent protests.

## **ENVIRONMENTAL ISSUES**

The presence of companies like Shell has led to extreme environmental issues in the Niger Delta. Many pipelines in the Niger Delta owned by Shell are old and corroded. Shell has acknowledged its responsibility for keeping the pipelines new but has also denied responsibility for environmental causes. This has led to mass protests from the Niger Delta inhabitants, Amnesty International, and Friends of the Earth-Netherlands against Shell. It has also led to action plans to boycott Shell by environmental groups, and human rights groups. In January 2013, a Dutch court rejected four out of five allegations brought against the firm over oil pollution in the Niger Delta but found a subsidiary guilty of one case of pollution, ordering compensation to be paid to a Nigerian farmer.

In January 1999, off the Argentinian town of Magdalena, Buenos Aires, the Shell tanker Estrella Pampeana collided with a German freighter, emptying its contents into the lake, polluting the environment, drinkable water, plants and animals. Over a decade after the spill, a referendum held in Magdalena determined the acceptance of a US\$9.5 million compensatory pay-out from Shell. The company denied responsibility for the spill, but an Argentine court ruled in 2002 that the corporation was responsible.

Shell is known to be processing oil from the Amazon region of South America, a large concern for environmentalists trying to protect the area. In the United States, the Martinez refinery (CA) and the Puget Sound Refinery (WA) carry Amazonian oil. In 2015, 14% of the Martinez refinery's gross, at 19,570 barrels per day, came from the Amazon.

## **Climate change**

In 2017, a public information film unseen for years resurfaced and showed Shell had a clear grasp of global warming 26 years earlier but has not acted accordingly since, said critics.

## **CURRENT PROJECTS**

### **Arctic**

Following the purchase of an offshore lease in 2005, Shell initiated its US\$4.5 billion Arctic drilling program in 2006, after the corporation purchased the "Kulluk" oil rig and leased the Noble Discoverer drillship. At inception, the project was led by Pete Slaiby, a Shell executive who had previously worked in the North Sea. However, after the purchase of a second offshore lease in 2008, Shell only commenced drilling work in 2012, due to the refurbishment of rigs, permit delays from the relevant authorities and lawsuits.

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The plans to drill in the Arctic led to protests from environmental groups, particularly Greenpeace; furthermore, analysts in the energy field, as well as related industries, also expressed scepticism due to perceptions that drilling in the region is “too dangerous because of harsh conditions and remote locations”. Problems encountered in this region can be much more problematic than elsewhere. Larry McKinney, the executive director at the Harte Research Institute for Gulf of Mexico Studies at Texas A&M, explained that “A two-month delay in the Arctic is not a two-month delay ... A two-month delay could wipe out the entire drilling season.”

Further problems hampered the Arctic project after the commencement of drilling in 2012. As the Kulluk oil rig was being towed to the American state of Washington to be serviced in preparation for the 2013 drilling season, a winter storm that year caused the towing crews, as well as the rescue service, to lose control of the situation resulting in the Kulluk being grounded off the coast of Sitkalidak Island, near the eastern end of Kodiak Island.

In January 2014, the corporation announced the extension of the suspension of its drilling program in the Arctic, with chief executive van Beurden explaining that the project is “under review” due to both market and internal issues. That is still the case to date.

## THE FUTURE OF THE COMPANY

The future of this successful company and its key players is likely to remain a little uncertain in such a competitive and global industry. Many of the ‘supermajors’ in the oil and gas energy industry, like Shell, have survived and maintained market share by clever innovations to stay ahead of the rivals. Therefore, the Royal Dutch Shell board will need to fully consider all of these key players and other stakeholders involved, including major governments, to continually monitor the ever-changing external environment whilst building future strategy around the core competences, experience and innovation that the company has built up over the many decades of success. It will not be easy as the energy industry is highly technical, complex and competitive. The future of Shell will almost certainly depend on senior management continuing to plan and implement relevant and effective strategies and so the strategic team at Shell must prepare a wide range of strategies for various future scenarios.

*Reference Source: Wikipedia*