Risks are enormous case study solution

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Short Description
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Description
Risks are enormous

Risks are enormous in the petroleum business. The price of raw materials can swing from $4 to $40 per unit, dictators can affect the business climate at will, and human error resulting in an oil spill can cost $3 billion or more. Royal Dutch/ Shell, an Anglo-Dutch multinational corporation, has a reputation for handling such risks well. Despite soft prices in the oil industry, mounting costs for development of new fields, and greater environmental requirements, Royal Dutch/Shell has adopted a growth strategy.
At Royal Dutch/Shell, pursuing growth amid uncertainty has led to significant rewards. In 1990, the company passed Exxon to become the world's largest oil company. The company has annual revenues exceeding $100 billion and is able to handle most of its capital spending through cash flow. Still, weak oil and gas prices have made Shell's operating profits somewhat flat over the

past decade. Because the company has continued to invest in exploration and new facilities that cannot yield large immediate returns, Shell has been under pressure to cut costs in order to boost profit levels and return on equity. Recently oil prices have improved somewhat, and the cost-cutting efforts are beginning to have a positive effect on profit levels. Royal Dutch/Shell has developed several approaches to help handle the uncertainties of the industry. Within a culture that encourages individual initiative, until recently, approximately 260 operating units were generally free to make their own decisions; with the help of service units that offer research and technical support. The relative autonomy allowed managers of operating units, such as Shell Oil Company, a U.S. subsidiary, to consider local conditions, monitor regularity requirements, and shift quickly to handle customer needs or crisis. Both, to help with the cost cutting and to achieve better coordination, Shell has recently instituted a more centralized approach whereby teams of senior executives oversee global divisions such as exploration and production.

Strategic directions for Royal Dutch/Shell are determined by the committee of managing directors. The six members are chosen from the top ranks of Royal Ditch Petroleum and Shell Transport and Trading, the Dutch and the British holding companies that own Royal Dutch/Shell. The committee operates on the basis of consensus; key strategic and personnel decisions must be unanimous, and the focus is long-term. Shell uses three major mechanisms to deal with uncertainty: geographic diversification, concentric product diversification, and speedy adaptation to change. For example, Shell explores for oil and gas in about 50 countries, has refineries in 34, and sells its products in 100. As a result, political or economic upheaval in a particular country cannot severely damage the company. Shell expects particularly high returns in high-risk countries; otherwise it does not do business there. In the area of product diversification, Shell stays close to the

energy and chemical businesses that it knows best(i.e., a concentric product diversification). Speed is also a key factor. When Spain discontinued the state monopoly over service stations, Shell quickly began developing a network of stations there.

Shell's managing directors try to identify changes in the industry by studying and debating scenarios prepared by their planning department. The scenarios attempt to depict reasonable, but alternative pictures of conditions in the world 10 years in the future. Each of the geographic regions and operating companies then uses the scenarios to formulate its own strategies within the overall strategic plan. Supplementing the scenario process, war gaming helps Shell handle the unexpected.

For example, local operating companies are expected to stimulate supply disruptions and prepare alternatives. As a result, when the Gulf war disrupted supplies from the Middle East, Shell was able to quickly redirect alternative supplies. Shell is currently being severely criticized by some shareholders and activists for polluting the environment around the Niger delta in Nigeria and for supporting Nigeria's military dictatorship by continuing to work in some parts of the country. Shell has admitted that its environment standards in the country were not as high as elsewhere and has offered to clean up the area, but does not want to abandon all of its operations in Nigeria. Cor

Herkstroker, Shell's Dutch President, says: "We want a constructive solution. Leaving Nigeria doesn't get you that. It is much more constructive to stay there and do the right things, such as reconciliation.

1. What evidence exists that Shell uses an effective decision-making process in making various decisions? What were the various problems with decision-making?

2. Explain how scenarios help Shell's managing directors engage in divergent

thinking? Discuss the limitations of such an approach?

END OF SECTION B

Details

1. Case study solved answers

2. pdf/word in 24-48 hrs

3. Fully Solved with answers