Shell Plans Multi-Pronged Reorganization for 2008

by Benoit Faucon | Dow Jones Newswires | Monday, December 31, 2007

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Royal Dutch Shell PLC (RDSB.LN) in 2008 is due to finalize elements of a multi-pronged reorganization, paralleling a similar move by its rival BP PLC (BP), as the side effects of sky high oil prices challenge oil majors' profits instead of boosting them.

The changes include outsourcing 3,000 computing staff, cuts to finance positions, reshaping expatriates' packages and a restructuring in its Nigeria ventures, according to announcements and company insiders.

Despite oil prices flirting with $100 a barrel, the majority of oil majors reported year-on-year profit declines for the third quarter.

Anglo-Dutch oil major Shell looked like a rare exception with headline third-quarter net earnings up 16.4%. But the figure concealed a 12.8% drop in profits excluding inventories and one-off items, which analysts consider a better reflection of the company's financial performance.

Oil prices, once a key contributor to the earnings growth at oil majors, are hurting refining margins, driving industry-wide cost inflation but also encouraging governments to seek better terms for their contracts - at the expense of majors.

As a result, some companies are looking at measures to cut headcounts, similar to those undertaken in the 1990s, despite the oil price now trading nearly 10 times higher.

In October, BP unveiled wide-spread restructuring after a series of U.S. operational problems added to the profitability challenge the rest of the industry faces.

Shell has made no such announcement, but with little fanfare, it has taken steps to reduce its group-wide costs by $500 million a year.

A Shell manager - who declined to be named - said that, though a reserves scandal led to top management reshuffle in 2004, it left the lower ranks largely unscathed.

This is about to change. On top of billions of dollars worth of divestments of less profitable assets, it intends to transfer "close to 3,000 positions" of its information technology staff to outsourcing companies, according to a Shell newsletter obtained by "Royaldutchshellplc.com" - a Web site critical of the company.

The document says staff will receive a letter telling them whether they will remain in their current position early January. A person familiar with the process said the suppliers are expected to be chosen toward the end of the first quarter of next year.

According to an internal e-mail sent to Royaldutchshellplc.com, Electronic Data Systems Corp. (EDS); T-Systems, which is the business services unit of Deutsche Telekom AG (DTE.XE); and, AT&T Inc. (T) are in talks to finalize the outsourcing deal with Shell.

A Factor In The Race To The Top Job

A Shell spokesman said it is also reviewing "ways to create greater synergies by moving existing financial locations to Shell-owned service centers."

The move, according to a person familiar with the matter, could lead to significant eliminations of positions in the finance department as Chief Financial Officer Peter Voser seeks a "leaner and meaner" organization.

In Nigeria, Shell's largest oil province outside the European North Sea and the U.S., it also plans to cut costs and jobs, as it faces pressure from the government to change the terms of its contracts and suffers from local insurgent attacks. The new organization is due to be effective in April.

But as it moves to reshuffle staff, the company is also rebalancing its expatriation system to attract more talent to riskier places such as Nigeria, Russia and the Middle-East, one Shell manager has previously said.

Under the new plan, staff sent to those regions will receive better packages. Nigeria-based expatriates already get a 30% premium to normal pay. However, in the coming years, those in Europe may be offered a less attractive package than before, that person said. Shell has previously declined to comment on details of the changes.

Beyond better profitability, the implementation of those moves will also be critical in selecting the next chief executive before current CEO Jeroen van der Veer leaves in 2009, one person familiar with the company says.

Company insiders and managers see three executives as having the best chances for the top job: CFO Voser, head of gas Linda Cook and exploration and production chief Malcolm Brinded.

Shell has previously declined to comment on who could be the next CEO. But its chairman Jorma Ollila has said it would likely be an insider.

The success of the restructuring at the finance department will boost Voser's chances while Brinded is making sure the numbers within the exploration and production division are polished, the person said.

As for Cook, every time positive news flow comes out of the gas business "she advances one notch" toward the top position, the Shell manager said.

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