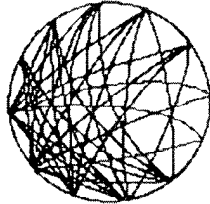# Lessons from the Past
Stories about World-class Collaboration
by Jessica Lipnack and Jeffrey Stamps

The Networked Community
Shell Oil Company

The oil industry is simply a network of enterprise and government-level virtual teams. There is likely not an exploration underway anywhere in the world that doesn't involve more than one company that is always negotiating with at least one, if not several, governments, whose product is moved, refined, and distributed by at least a dozen more firms. Royal Dutch/Shell Group, of which the Houston, Texas, Shell of this story is just a part, maintains more than 1000 joint ventures.

In 1991, Shell Oil Company sees the worst performance in its nearly century-long existence. Suddenly while Shell is looking backward, the world around it soars ahead. Showing just $21 million in net profits against its more than $22 billion in assets, Shell gets its "wake-up call" that year, says Linda Pierce, a 33-year Shell employee who rose to senior ranks of the company. "We realized that our failure actually began much earlier when large investment decisions were being made at the very top of the company without a system, structure, or process for tapping into the knowledge of the organization."

For a century, the "majors"–Shell, Exxon, Texaco, and the like—have dominated the industry. In a few years' time during the 1980s, upstart companies, some with only a handful of employees, begin to exploit cracks in the majors' business models. The singular world that Shell once ruled with only a few other competitors abruptly crowds with unlikely opponents. The competitive sky is turning colors that Shell cannot even name.

First dozens and then hundreds of companies offer products and services along the whole value chain—exploration, production, chemicals, distribution, and retail. In the new oil business, services prove more profitable than the natural resource itself. Consider Landmark Graphics, now owned by Halliburton. It grew its 1984 computer-aided

exploration software to fill 90 percent of the oil-exploration information-technology market in just a few years.[i]

Shell's initial response is predictable: Work force reductions of one-third, from 33,000 to 22,00, along with the elimination of significant layers of middle management. "We looked very hard at cost-cutting, which got us in touch with what our competition was doing. Much to our surprise, we learned that we were not competitive in producing a barrel of oil," Pierce says.

The Transformation

In 1993, Shell's then-vice president of administration and finance, Phil Carroll, takes over as CEO. Within a few months, Carroll and a coterie of talented people, including Pierce, initiate what comes to be known as "The Transformation," a radical redesign of the way the company operates. Their new vision is quite simple: To become the premier company in the United States. Soon, imagined covers of Fortune appear around the company, with the pictures Shell executives captioned by that phrase.

The changes to come are profound. Carroll reorganizes the company's top executives into a "Leadership Council" that replaces the existing three-person General Executive Office. This seemingly simple modification heralds a dramatic break with Shell's organizational history. Shell had been the classic hierarchy with decisions made privately at the top, then imposed downward through a slow-moving, inflexible, not-very-street-smart bureaucracy.

"We knew that an engaged workforce more fully involved in the business of the company would require a different kind of leadership," Pierce says. "We had technical leadership but not business leadership." The idea is that in the new Shell, no single place in the organization makes business decisions; many would.

Each principal business (exploration and production, chemicals, oil products) would be run by a chief executive officer responsible for delivering strategy and fulfilling financial commitments. Each also would have its own board of directors with seats held by executives from other internal businesses and corporate functions.

Soon thereafter, the 200 most senior leaders from across Shell convene as the "Corporate Leadership Group," threading still more connections across the company. Their charge is to protect both the welfare of the whole company and their own businesses simultaneously.

This new business model sends profit and loss to the major businesses, which in turn spawn a rich network of relationships among the company's financial officers. At one point, the chief financial officer of Shell Oil Company, the corporate "holding company" center of all the businesses, sits on 17 boards.

The Transformation also opens Shell's doors to the outside. Scores of creative people—authors, consultants, thinkers, musicians, "graphic facilitators"[ii] and of course industry experts—come through the Shell Learning Center. Carroll builds the facility as an adjunct to the famous conference center at The Woodlands, the planned community outside Houston. The Learning Center is booked all the time but no desks are in sight (except in the offices of the people running the place). Abundant instead are chairs on

rolling casters, comfortable enough for day-long meetings, walls that you can pin anything to, flip-charts, projectors, computers for logging into the company's network—and buffets of excellent food. It's a superb environment for learning and building trust.

The Learning Center also serves as the meeting place for the company's many initiatives. Each initiative involves posing a set of questions to a cross-section of Shell employees. Typically these people would devote mixtures of full and part-time to the initiative for as long as six months. By its conclusion, Shell would have a new approach to diversity, recognition and strategic cost leadership.

In October 1997, Shell's planners, a small group of future-attuned strategists, many of whom have first-hand experience producing oil, present a startling statistic to the Leadership Council at its annual retreat in Galveston. As recently as three years earlier, Shell had owned nearly 100% of the companies in which its assets were deployed. By the time of the October meeting, that number has sunk to 34%. Everything else is or soon would be in joint ventures with competitors (including its retail business with Texaco and Saudi Aramco), or in global alliances with its parent. The planners predict the number will plummet even lower when Royal Dutch/Shell turns all of its businesses into global ones. The conclusion is that Shell no longer stands alone; it is deeply enmeshed in a "networked community" whose rules, assumptions, and guiding principles diverge markedly from its previous architecture.

Shell moves from "control through ownership to influence through relationships."[iii]

Strategic Initiative Teams

A month later the Leadership Council convenes 38 people to join them as part of a new group of Strategic Initiative Teams (SIT). A broad cross-section of employees—from Chet Servance, a boiler-maker at the company's Deer Park Refinery, to the company's then-treasurer, Tom Botts, are invited. Their mission is to answer four fundamental questions about the new Shell and make recommendations that the company can act on immediately:

How will we learn?

What will it mean to be part of the Shell family?

How will we develop our people?

How will we govern?

They divide into four teams, with the Leadership Council addressing the fourth question on governance. Pierce calls it the best project she ever worked on. "They started as four teams and ended as one," she says. "It began with the Leadership Council's desires but ultimately what drove the team was what they came to believe was important. That happened in a workshop [at the Learning Center] where the team became one and

took over the design of workshop much to delight of the facilitators who had designed it!" Pierce is referring to Bill McQuillen and Jim Tebbe, the head facilitators for the SIT, and Tom Botts, who serves as overall coordinator for the SIT. "They get credit for creating the conditions that allowed it to happen," Pierce believes.

It ultimately is a very large virtual team. Around the 38 core members are 90 more on the Employee Panel, a review team recruited as representative of the broader community in which Shell lives. Panel members, nicknamed "the spoons" because of their role in "stirring the pot" in support of the networked community, include a school superintendent, a local minister, the president of a local trucking company, and several spouses of Shell employees. This design insures that the SIT does not act in isolation. Regular reviews take place with the spoons, who in turn speak with their constituencies about the meaning of the new Shell.

The SIT provides a striking example of shared leadership at the highest strategy levels. Botts leads the initiative as principal coordinator of the effort, working closely with Pierce in her role as the liaison to the Leadership Council. The four sub-teams, including the Leadership Council itself, are responsible for answering one of the four questions; each has its own leaders and facilitators. McQuillen and Tebbe share responsibility for designing the meetings that convene the whole SIT group.[iv] Ed Kahn, another senior facilitator at Shell, designs and leads meetings with the spoons. The Leadership Council members also weave more strands—each belongs both to the governance team and serves as co-sponsor to one of the three other teams. As outside consultants, we also contribute leadership and content expertise on networked organizations.

"Networks are leaderful. Any virtual team that attempts to operate with one formal leader is not going to make it," Pierce says. She points to Botts' style of leadership as required in new organizations: He's a learner, she says. "In the networked world, things are continuously changing so the leader with the answers has no answers. Tom continuously holds the questions not the answers." Pierce refers to this quality as "hearing the music," meaning that there is a new background coherence for people in networked organizations. To hear it, you have to part with the traditional trapping of power—having the single right answer. Otherwise, you only hear noise. Create questions, not simple answers, and you will excel, she believes.

In a few short months, with people continuing to work their day jobs, the SIT turns out a "Networked Community Fieldbook,[v]" that includes seven "enabling recommendations" to propel the new Shell to a higher level of performance:

Executive Sponsorship of the process;

Network Leadership Group comprising leaders throughout the community;

Network Learning and Support Center to help build new competencies;

People Movement meaning that job postings are fluid throughout the community;

Information technology infrastructures for communication and sharing;

After Action Review, an institutionalized learning process; and

Communities of Practice in pursuit of improved business performance.

The Leadership Council endorses and approves the recommendations upon the fieldbook's presentation, demonstrating how well the team had managed the expectations of its stakeholders. Within a few weeks:

- The Network Learning and Support Center sets up shop;

- The company makes investments in developing communities of practice[vi] across the larger network;

- The U.S. Army's practice of After Action Reviews to evaluate all meetings is instituted, and

- The building of the information infrastructure to accommodate cross-boundary work is accelerated.

Even larger changes in Shell's operating model come to pass that following summer that are served well by the work of the SIT. Royal Dutch/Shell Group, the parent company, "globalizes" all the U.S. businesses, meaning that they become accountable directly to their global organizations. Exploration and Production, long based in Houston and New Orleans, and the heart of the Shell Oil Company's revenue stream, for example, becomes part of Royal Dutch/Shell's global "Exploration Production" organization. Similar changes are made in the Houston-based chemical and services organizations.[vii]

Pierce and others believe that the work of the SIT, educating people about the power of working across more porous boundaries, helps ease the transition to the global Shell organization, which itself is grappling with the next level of planetary complexity.

"The global leaders have taken on huge accountability," she says. "'Think globally, act locally'[viii] is a snappy little phrase but what does it mean to operationalize it? Does the global team trust the local team? Is the local team able to operate with the whole in mind? It's a very hard decision to close a local plant."

There is no insurance policy for companies like Shell that are moving from the Industrial to the Information Age. But the investment it has made in preparing for the future is instructive for other brick-and-mortar companies. Technology and resources alone do not enable success; people do.

i See Landmark Graphics at http://www.lgc.com/about/about.asp.

ii See Chapter 4 ? Footnote #X, for an explanation of "graphic facilitators."

iii Networked Community field book, Shell Oil Company, March, 1998, p x.

iv We served as consultants to the SIT [include? Disclosure issue]

v "Networked Community Fieldbook," Shell Oil Company, March 1998.

vi See Etienne Wenger [*Communities of Practice: Learning, Meaning, and Identity, Cambridge University Press, 1999*] and HBR article in Jan 2000.

vii Shell Services International had made this move the prior year.

viii The phrase, "Think globally, act locally," first was used by Rene Dubos, the two-time Nobel Laureate.