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Delivering a world-class integration in oil and gas

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Transition CEO Huibert Vigeveno discusses what worked in Royal Dutch Shell's integration of BG Group, its biggest acquisition in more than a century.

On February 15, 2016, Royal Dutch Shell plc and British energy giant BG Group plc became one combined group of companies—the outcome of an M&A deal that had been in the works since before the combination was first announced, on April 8, 2015. The transaction is one of the largest in the energy industry's history. It's also the biggest the Shell Group has completed since 1907, when Royal Dutch and Shell Transport and Trading merged to become Royal Dutch Shell. Following the combination with BG, Shell is now the second-largest international energy company in the world by market capitalization and production.

Merging two large global groups of companies with different cultures, histories, and strengths presented complex challenges. Yet the process went more quickly than analysts had expected, and the deal is already delivering synergies that exceed initial targets. The $2.5 billion in synergies announced for delivery by 2018 was actually delivered by the end of 2016—ten-and-a-half months after Day One of the combination. The expected synergies were increased by a further $2 billion, to be realized by 2018. In addition to an accelerated and successful delivery, BG employees experienced a fair and transparent process. Many of them felt that they were treated with respect and in accordance with safety and people principles: the integration of the two groups of companies seamlessly combined the head and the heart.

To find out what contributed to this success, McKinsey's Ivo Bozon, Rebecca Kaetzler, and Surya Ramkumar sat down in December 2016 with Huibert Vigeveno, then transition CEO of BG Group. In January 2017, Vigeveno took up a new role as executive vice president, Global Commercial, Royal Dutch Shell.

McKinsey: *What objectives did Shell have in mind for the Shell–BG combination?*

Huibert Vigeveno: The combination with BG has always been a bold and compelling move for Shell. BG was widely known as the most agile oil and gas company in the energy industry. The company also had a very strong portfolio in deepwater, especially in Brazil, and in liquefied natural gas—for instance, in Australia. We believed that by combining with BG, Shell could immediately become a world-class player in deepwater and in integrated gas, including trading, and achieve strategic objectives that otherwise might have taken us ten years to reach.

Huibert Vigeveno

Vital Statistics

- Born in 1969 in the Netherlands and spent early years in Indonesia and Brazil
- Married to Annick, with 4 children (2 girls and 2 boys)

Education

- Master's degree in business administration from Erasmus University, Rotterdam

Career Highlights

- Executive vice president, Global Commercial, Royal Dutch Shell (Jan 2017–present)
- Transition CEO, BG Group (2015–16)
- Executive chairman, Shell China (2012–15)
- Vice president, Shell Supply & Distribution, Europe & Africa (2009–12)
- Various assignments for Shell Chemicals, Shell Capital, and LPG and Lubricants (1995–2009) in the United Kingdom, the Netherlands, the United States, Mexico, and Brazil

Fast Facts

- Has lived in 13 cities across 4 continents and speaks various languages
- Chair for London City Swim, a charity event dedicated to fundraising for Amyotrophic Lateral Sclerosis (ALS)

Integration planning commenced shortly after the deal's announcement, in April 2015, through to Day One—the first day of the combined group of companies, which was February 15, 2016. During planning, we set out to achieve an integration that would be perceived as world class in any sector. Even amid substantial legal and regulatory considerations until we received all antitrust approvals and closed the deal, we were able to set the tone for collaboration and partnership. Shell CEO Ben van Beurden; BG's CEO, Helge Lund; my counterpart at BG, Sinead Lynch; and I not only stated this as our aspiration—we meant it.

McKinsey: *What targets were set for the transaction, and what has the integration actually achieved so far?*

Huibert Vigeveno: At the outset, we defined four main drivers for a successful integration, and I am proud to say that, to date, we have seen successes with each driver.

The first was to continue doing business, ensuring that safe business operations were not compromised by integration activities. Throughout the integration journey, we were able to continue the delivery of safe business performance on a day-to-day basis. The second driver involved our people and how we retained the best talent. By the end of 2016, ten months after completion of the deal, we had integrated operations in more than 14 countries and went from two groups of companies, with different plans and infrastructures, to one group of companies. In the end, three-quarters of BG employees moved to a role in Shell.

Our third driver was identifying and capturing synergies and value upside. When we first announced the deal, we set an original synergy target of $2.5 billion. In December 2015, we upgraded that to $3.5 billion. In June 2016, the target was increased again, to $4.5 billion. The original $2.5 billion was delivered by the end of 2016, ahead of target.

The fourth driver related to learning opportunities. BG was considered to be the most agile oil and gas company in the energy sector. We were keen to understand how they worked, so we could take those insights into Shell. Since Day One, the BG and Shell integration teams have together focused on identifying the defining traits and winning behaviors that formed part of BG's DNA and helped drive its success. From this, more than 100 differentiated practices were identified, by countries, global businesses, and functions. Over 90 percent of these were embedded into Shell through the design of combined operating models. And we've prioritized the top eight practices that we believe will have the most material impact on our ability to reset Shell and make us a simpler, more agile, and more profitable company.

But it's not just about the numbers. We can certainly articulate our achievements from what I call an "IQ" or head perspective, which looks at the facts and figures. But the "EQ" or heart perspective is arguably even more important. Ultimately, I'm most proud not about what we delivered but *how* we delivered it, especially in our care for people. For example, for anybody at BG, whether they have moved to a role in Shell or not, we have worked to ensure that they feel like a valued employee or alumnus who has been treated with honesty, integrity, and respect. By looking at this integration not just with our heads but very much with our hearts and seeing how many people were happy with their experience and how many people stayed with us and moved to a role in Shell—that, to me, is the real test of whether the integration is world class or not.

McKinsey: *What do you see as the major factors behind the success of the integration?*

Huibert Vigeveno: During planning, you prepare for Day One of the postmerger integration period, even if you don't know exactly when that day will be. You also plan for what will need to happen between Day One and full integration, which we formally achieved by the end of 2016. Integration planning and the process of integration are two distinct phases, so you need two different approaches for managing each phase.

Within this, another success factor is that rather than taking a one-size-fits-all approach to planning, we developed plans that made sense for BG's many different local operating companies. I've worked and lived in various countries around the world—the United States, Mexico, Brazil, the Netherlands, the UK, and China. Those experiences were very useful for the work we were doing on planning this integration. They helped me understand what challenges and realities were facing the local operating companies and what plans would be most effective for them, rather than just adopting one generic approach.

Examples of BG insights in practice

Centralized assurance and investment appraisal. These insights have had a significant input into the establishment of a capital investment committee (CIC) and of one integrated and independent opportunity-value-assurance organization within Shell.

Lean functional and corporate organization. Thanks to these insights, the company assessed the feasibility of implementing a model similar to BG's late-life one across parts of the upstream portfolio. A number of practices, aligned with the findings of the Fit for the Future program already under way in Shell, have contributed to the design of upstream target operating models. These include differentiated asset strategies; speed of decision making and accountability; simplifying standards, procedures, and governance; stopping inefficient activities, tools, and systems; and empowering the front line. Opportunities to replicate this approach across businesses are ongoing.

Value-focused accountability. Shell looked at BG's practices in clarity of accountability and holding people accountable. In 2014 BG established a COO office to drive performance management in BG's assets, focusing on the creation of standardized and simplified key performance indicators (KPIs) for all of the assets and on establishing an operating rhythm.

End-to-end commercial first. These insights help Shell make nimble, integrated, and value-driven decisions throughout the organization. A focus on up-front commercialization transformed the One Exploration budget and portfolio approach, for example.

Other BG insights. Technical-productivity improvements (for instance, transparent productivity-based costing); risk appetite and decisions based on calculated risks (for example, decision making based on 80/20 risk assessments with leadership challenge and no compromise on safety); simplified engineering standards and specifications (such as limited, simple, and fit-for-purpose engineering standards and specifications); and strategic contracting of activities and solutions (for instance, less customized and much more market-standard off-the-shelf IT solutions).

To further help us realize our aspiration of implementing a world-class integration, the executive team, led by the CEO and CFO, puts its best people forward to work on integration planning. I think this was really where the magic happened. We stayed focused on the four most material value drivers for a successful integration, including where the best synergies were and how to capture them. In any integration, not everything is of equal importance. If you make too many things equally important, the odds are you'll probably lose sight of why you're doing the deal in the first place.

We also paid a lot of attention to how we would retain the best talent in the combined group. Rather than be driven by a preference for employees within any one of the companies, the priority was always about doing what's right for the newly combined organization in a way that was equally fair, respectful, and transparent to all employees.

Coming into the planning phase, we also knew quite a bit about BG, and we felt we could learn a lot from them and use those insights to reset the Shell Group. Finally, in getting people ready for Day One, we were always very clear about accountability. Everyone knew who would be the leader in each country or for each function on Day One, and we fully equipped those leaders with transition guides and briefings to ensure that the integration, from Day One onward, would go smoothly.

For the integration journey itself, which began on February 15, 2016, and went on through December 2016, we created three easy-to-understand phases—discover, define, and implement—to structure and drive the integration process, which went at different speeds in different areas of the business, depending on the scale and complexity of integration. These phases also provided handrails for our employees to make sense of the change. By the end of 2016, we had gone from two groups of companies to one group of companies, which was faster and more drama free than many observers, outside and within our organization, initially expected. But that demonstrates the resolve both companies had to succeed and deliver a world-class integration.

McKinsey: *What do you see as the most important lessons you learned from this experience?*

Huibert Vigeveno: I see many lessons. First, get the best people from both organizations involved in the integration team and define your vision of success from the outset. You'll need support from the most senior executives to do this. Second, during planning, stay focused on what matters most to the success of the integration—what will best help you achieve the objectives you're trying to reach by undertaking the deal in the first place. Third, accept that you probably don't have all the answers. Seek guidance or support from others in your industry, or even outside your sector, who have dealt with challenges similar to yours during M&A transactions.

Fourth, don't assume you should always use a standardized handbook to guide your integration. In Shell, the last time we did something of this scale was in 1907. Obviously, we've conducted some acquisitions throughout the years, but things change over time. What might have worked for an M&A transaction ten years ago won't necessarily work today. For example, businesses are less focused on command and control now and more focused on collaboration, so you need to adapt to that. You have to start with an open mind instead of taking an overly preconceived approach just because it's written down somewhere from an earlier deal.

Fifth, the policies, processes, or procedures you use matter much less than the ecosystem or culture you create together with the company you are acquiring. With BG Group, Sinead

Lynch—my counterpart for integration planning—and I were very clear that our teams should start working together immediately at a neutral location. Co-location allows for co-creation. We could not have achieved what we did if we had worked separately during this planning phase—although we were very conscious, of course, that before antitrust approvals were obtained, we needed to ensure that we operated our businesses entirely independently.

And sixth, go into every M&A with an open mind to what you can learn. Observe as much as you can, and always try to do what's best for the combined group you're trying to create. A learning mind-set and openness are very important to the people in the company you're acquiring. If they see that you mean what you say, they will often replicate that behavior. You can then build trust and rapport quickly and create something unique, taking the "best of both" forward together as we have done in this integration.

McKinsey: *What did you do, personally, to help make sure this integration succeeded?*

Huibert Vigeveno: I always said that we've got one team with one mind-set. It didn't matter to me if people were from Shell or BG—we were all here to drive toward a world-class integration. I also ensured that we had diversity within the integration-planning team. Some people had very strong technical competencies and others had very strong functional ones, like finance and HR. But what they all had in common was a desire to build something unique out of this integration and do the right thing for the combined group and the people involved.

I also adapted my leadership style. Sometimes I've used what I call a university style, which means someone comes to me with an update or an issue; we talk about it; and I say, "OK, you're going in the right direction. Let's touch base in three or four weeks." Other times, I've used what I call a schoolteacher style, where I need to get more involved and be more directive because it looks like a project is derailing.

Sinead and I received weekly status reports on the integration activities taking place in the different countries and functions. We used those reports to see a comprehensive picture of integration and what kinds of challenges the teams were facing and to determine if further work was required. That helped us keep a finger on the pulse of the organization. You cannot delegate that. As transition CEO, it was my main accountability.

McKinsey: *What do you hope for the combined group's future?*

Huibert Vigeveno: It's not really about hoping—it's about believing what will happen. I believe we will regain the number-one position in the energy industry. I mentioned 1907 as the last time that we did something of this scale, when Royal Dutch and Shell Transport and Trading merged. The merger involved taking the assets from both companies and creating a unique culture. After 1907, Royal Dutch Shell became the industry leader in terms of shareholder returns. I am convinced that if we continue the way we're operating now, integrating BG and using insights from BG to reset Shell, we will regain that number-one position quickly.

Forty years from now, when people look back at the history of Royal Dutch Shell, they will say that 1907 and 2016 were the pivotal years that enabled the company to achieve the top position in its industry, which is really what we're striving for. □

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