

JULY 2009

McKinsey Quarterly

McKinsey conversations with global leaders: Jeroen van der Veer of Shell

The former CEO reflects on the oil industry's future, as well as management lessons learned over a long career.



Jeroen van der Veer, former CEO of Royal Dutch Shell, retired on June 30 of this year, bringing to a close his 38 years with the company. In this video, the latest in our interview series *McKinsey conversations with global leaders*, van der Veer shares his thoughts on the future of oil, prospects for alternative energies, and challenges the industry faces in tackling the problems of climate change. Ivo Bozon, a director in McKinsey's Amsterdam office, conducted this interview in The Hague in June 2009.

In the industry: The future of oil

Jeroen van der Veer: Even if you are in the middle of a short-term economic crisis, I think it is very good to keep your eyes on the long term. So if I think about the long term in the energy industry, we take the year 2050—40 years from now—as a reference year in our mind and then we see three things. Energy demand will double, because we go from 6 [billion] to 9 billion people, and all people like to transport themselves and they like to have electricity at their home. So, even taking energy saving into account, that still works out as doubling of energy demand. Secondly, the classic oil and gas industry—what we normally refer to in our jargon as easy oil, easy gas—is not enough to supply all that demand. And thirdly, CO₂, carbon dioxide, is already a problem now. And the solutions to what you can do about CO₂? There are no easy solutions.

That's the long-term business environment for where to position your company. Now short term is quite interesting. You have the economic recession that drives, at this moment, lower demand. So here you see, basically, you have a kind of long-term trend of energy demand going up. But now we have a dent in the short term. If the economy comes out of the economic recession—and that will happen, I don't know when—you will see energy demand goes again up and it was only a small blip or a small dent.

And then we expect quite a robust pricing environment for energy because there are not any longer cheap solutions left to easy oil, left to easy gas. Or, if you take it to the alternative energies: alternative energies will come. We are absolutely convinced. But they will not be very cheap for the consumers.

Ivo Bozon: *What's your expectation around all the alternative energy policies? How far will they go, and will they dramatically influence the ultimate demand for oil and gas?*

Jeroen van der Veer: The majority at this moment is fossil fuels. Then you have this huge growing energy demand in the long term. We think that in 2050, still a very large part will be fossil fuels but, relatively, alternative energies will have gained in market share and the total pie will be bigger.

How will this go? I think at this moment, if you take subsidies out, most alternative energies are still too expensive for consumers. So the first priority is with technology and

scale, of course. Can you make alternative energies lower cost? If you have achieved and you know how to do that, then consumers are likely to buy it. The second phase is that, because the costs are now more acceptable for the alternative energy, then you can build a lot of capacity. So first technology development, lower costs, building the capacity; then the people have to deploy it; and then you make an impact on the CO₂ problem.

That's one part. The second part is that in fossil fuels—think about coal or oil, and to a lesser extent natural gas because that's relatively clean—you can try to work on CO₂ solutions. So can you do carbon capture and storage? If you do that, then you take the disadvantage of fossil fuels away. And that is the parallel path. And, between that, you may see competition and maybe they accelerate each other. That's the good news for the people.

Ivo Bozon: *In that world you see reasonable, stable growth still—even to doubling, you say—of the fundamentals of oil and gas demand?*

Jeroen van der Veer: Depends which scenario. But if you say that, at this moment, fossil fuels are about 90 percent of total energy supply, and 10 percent is nuclear, and then water power and wind are still very small, then suppose that in the year 2050, 70 percent is still fossil fuels—or even if you take 60 percent, doesn't matter, because 60 percent of a market that is double by 2050 people can calculate. That means that, in fact, in 2050 you sell more fossil fuels than today. And renewables have become quite big because the size of the cake is twice what it is now.

The downturn: A faster cycle

Jeroen van der Veer: Especially between Lehman's and January of this year, we had a much faster cycle. Basically we took a daily view with my CFO: a review of the markets, what was happening internally with our cash, any news about customers. And then we asked ourselves every evening, "Do we need additional decisions or additional directions?" Now since January, I'm glad to say that we could stop the daily cycle. But in fact, you are still very much on top of day by day or week by week to see whether [something is going on]. You don't wait for the monthly reports at all. So that is the whole "steering." I call using your feedback "steering" because of the quick cycle.

The second one is communication. Not only internal communication—people feel uncertain, so they like to understand how the bosses think about it—but external: with politicians, ministers. And nearly every discussion you start in the first two minutes with not necessarily the subject you have to discuss, but [instead with]: "What do you think? How long will it last?" And people, they expect an answer. You better think about that. So you have to think a lot about communication. Externally and internally, what are your key messages?

On leadership: From A to B

Jeroen van der Veer: I think the most simple is, I say, from *A* to *B*. And I can explain that. *A* is very simple: you take stock of where you are today. I did this when I was refinery manager a long time ago. So, know the pluses and minuses of this refinery. Then you should be able to explain that in one or two minutes to all the operators and workers of the refinery. And why is it so important that you have honest judgment? Because if you are too optimistic or too pessimistic, then you don't get credibility from your own workers. So a good assessment provides you: you think, "Yeah, my boss knows what he's talking about. Yeah. Don't like it but, yeah, maybe that's how it is."

That's position *A*. Now, okay, that's fine. But that's not leadership. Then you have to work out, what is position *B*? If I take the example of the refinery, where should the refinery be in three or four years from now? Again, if you dare come with a 50-page PowerPoint presentation, you are nowhere. The art is to explain that in the same one to two minutes in very credible terms and you give some key arguments why position *B* is a good place. Okay. So that's the picture of where the refinery has to go and the key arguments, and people say, "Yeah, yeah, yeah. I'd like to be there. Yeah, I see that." But again, that's not leadership. That's just defining *A*, defining *B*.

The third task, which is usually where it goes wrong, is when you have to say: "You have to do this on Monday morning, and you have to do that on Monday morning. And today, it is Friday." And so you need a way really to organize and set clear accountabilities and milestones, especially the ones which have to happen in the very short term on the path from *A* to *B*. This is basically a concept that I fostered over the years that has always helped me. And, I say this with a smile, this is about enough.

Ivo Bozon: *You're known to be a very strong leader. How do you think people would describe your style?*

Jeroen van der Veer: I leave that to those people. What you hear back are words like "quite people oriented," "ability to listen"—no, I think that's enough.

If the company is in difficulties, people have a tendency—especially senior people have a tendency—to walk with their head down. And in the operations, they say, "Okay, the difficulties are somewhere else. It's not us." But in the end, what needed to be done for the reputation: we had to make certain changes in Shell, which basically affects all people. So in that phase, it is quite clear what you expect from the different parts of the company and the communication around that—and that all the communication is then about simplicity and consistency as well. That's how you stabilize the firm. And after the firm is stabilized and you move it forward, you do that with an organizational stability. And then people think, "Hey, that's nice. That's fine."

We keep on doing that. But life is not that easy, because, in the meantime, the external business environment changes, insight on energy demand changes, insight into CO₂ and international politics changes. So you have to make sure that, in the stabilization phase, people don't get too slow or too . . . the word *complacency* is a bit negative . . . but that you again get a mismatched environment. So then you have to be on time to bring those new external aspects into the management; and not just because you are in a crisis. And what at the end of the day counts is, of course, not so much whether you bring those new things into it, but whether you have, as leaders, organized enough speed to make the next adaptation. And that story continues itself all the time.

Business in society: Playing by the rules

Jeroen van der Veer: I have a philosophy for myself, and I'd like first to share that and then to add how I look back at the last ten years. In my view, the role of the chief executive or the first lead of a company is that, if you go for long-term success of the company or long-term shareholder value—because that is then the reward—then the only way you can do that is for the chief executive, with his people, to balance the interests of various stakeholders. As stakeholders go, that's not only shareholders and employees or customers: they're people who live near your operations, they're the governments or the countries where you work, and maybe the NGOs.¹

So you have to think that there are many stakeholders around the company. The job of the top team is to balance that. If you are successful in that, then I'm convinced that you create long-term shareholder value, you create happy customers, you create happy employees, happy neighbors, and you have a good reputation. It goes in that sequence. I think that if I look back at the last ten years, it may be that the [traditional] shareholder-value model at least was perceived [negatively] by society. But I think the society was correct in thinking that. Sometimes the interests of shareholders were very dominant compared to all other stakeholders' interests. And then of course you create, over time, criticism. And I think we are in such a phase now.

Ivo Bozon: *Do you think the expectations of society of the role that large, international, global companies play will change? Do you believe that society may ask bigger roles of companies in society? Or different roles?*

Jeroen van der Veer: Well, at least I've experienced that in companies like Shell—involved in energy—that it is quite, quite often that you are in a situation that people have demands for Shell that we should do certain things. I understand why people ask that, but my answer's been basically, “Hang on. We are not the government of this country. This has to do with your government. Basically, a government sets the conditions and the rules, the laws and the regulations of the land. And within those rules we have to play the game.”

¹Nongovernmental organizations.

Or, if you take soccer terms or football terms, the government has said, “This is the field. These are the rules. There is the referee. And then we can start the game.” And then, of course, as a player in the game we may have comments on the size of the field, or the condition of the field, or the referee. But the roles are really different.

I think that will continue. Sometimes the criticism of Shell is in fact criticism of governments. Having said that, in this world we have to step up in our communication. It was already ten years ago when one of my predecessors said it very well. He said, “If you work in a big company, forget that society will think, ‘Trust me as a big company.’ The automatic trust is not there.” Society says, “Show me,” “Be transparent,” and, “Why should I believe you?” The world is much more critical. And if you go from this “trust me” to this “show me” world, then it is very important that the senior leaders are very good communicators. I started as an engineer, so we all have to learn that over the years.

Ivo Bozon: *After the Brent Spar affair, you’ve spent a lot of time on the license to operate. You’ve innovated in the way you report societal performance of Shell; you’ve innovated in the way you discuss with different stakeholders around new projects. Is your sense that that actually gives you a competitive edge?*

Jeroen van der Veer: Let me give you an example. We have certain projects in Shell, which were from a technical point of view—my technical and economic point of view—good projects. But you run into either the perception that they were environmental problems or the people where the projects had to be built didn’t like it. If you then go to the base roots of what went wrong, if anything went wrong, and how could you have done it better, [the problem] is usually in the very early stages of project preparation where we’re making the choices between various concepts.

It is not so much the engineering side of it, but it is: How did we read the local population? What was the real interest there? How could we help find jobs? Were there environmental aspects? How did we deal with that? So sensitivity to the many other stakeholders, or their perceptions about that, can help you to get projects better off the ground and with more harmony. If you are better at that, then you are more successful in developing those large-scale projects; and you realize every time that you develop or start up a complex project that it is [essentially your] best business card for the next project.

So in a way the answer is yes: sensitivity on the soft aspects or the many other aspects, which have nothing to do with technology, you can get out of that a competitive advantage. And then the last thing I’d like to say is that now we have a very disciplined approach for large projects—how we start them—just to make sure that people don’t ignore all those aspects I just mentioned.

The big picture: Climate change

Jeroen van der Veer: The opportunity for the industry is to provide more energy for lower CO₂. That's how I say it for Shell. Our job? Very simple. More energy, lower CO₂. But how can we do that? Now we can say to the governments, more energy is, for instance, more oil and gas; lower CO₂ is successful next-generation biofuels. And then we can say: okay, more oil and gas but can we get, for instance, carbon capture and storage off the ground? It costs money to build it. It costs money to do it. And it costs, after that, money to monitor it. If we would do that and other companies would not do that, then you don't have a level playing field. We would go out of business, and then the society doesn't get more energy for lower CO₂.

So you can say the role of the industry is to show what you can do as a company. Then we have to make a business model, but you need governments to help you to make the business model. They can say, "We make cap and trade. We make sure that, with CO₂, if you store it in the ground, you get a revenue prize for that." And then you build business models and, if you are successful in that, it can become big. So here you see a classic example that, in the whole climate change debate, companies have to indicate what they can do about CO₂, and when it will work, and what this costs them to go very fast in it. And then the governments have to set regulations around it. That's one.

The problem for governments is not that easy, because the whole CO₂ problem is a global problem. And if we have a set of regulations in country A, and in a neighboring country we have a complete other set of regulations, then probably you have not only an unlevel playing field for the energy industry but you may have an unlevel playing field for every energy-intensive industry—think about the cement industry or the chemicals industry. So that's why conferences like Copenhagen, and more to come that have to build international frameworks, are so important because otherwise, if you get too many unlevel playing fields in the world, then it will hamper economic growth and it will slow down the lowering of CO₂ in the atmosphere. So it is double bad news.

Management lessons: Looking back on a long career

Ivo Bozon: *What is different in that leadership role? What is different about being the true global center point of such a large company?*

Jeroen van der Veer: Different compared to 20 years ago or 30 years ago?

Ivo Bozon: *Compared to roles in smaller companies—being a leader of a smaller unit, either a country unit or a division. Often you see a break point in the capabilities that people have to have to be able to fill the next-level role as a global leader.*

Jeroen van der Veer: I think two come to mind. Even if you are a refinery manager, which is one of my anchor points, and you do something at the top of the refinery—and it was one of the largest refineries in the world—but I can still, in the Netherlands, I can go on my bicycle to the shop floor to see that a message arrived. If you are a global CEO, you can take spot checks. We still try to do that. We have all kinds of feedback mechanisms. You can measure it. But there is always the danger that—and it is an old cliché but it is there—you lose contact between the top floor and the shop floor. So you have to organize for yourself a way that that does not happen.

And if it happens, people will feel it quickly. I say always keep your feet on the ground—keep on listening. And when I say feet on the ground, [I mean] size 12 in the States, [size] 46 here. So a big foot helps. That's one. The other problem, the other big difference of a chief executive is that you have to really to think, “Suppose I don't do anything. What would go wrong?” There is no point to spend my energy if basically the organization would already take care of that itself. So you have to ask yourself—I have to ask myself—all the time, “Suppose I wouldn't do anything here? I simply let it go. Will it solve itself? Or may it solve itself too slowly? Do I interfere? And if I interfere, what do I try to achieve by that?”

And, okay, that's the easy part. But the other part of this story is many of the things I do now are not even for my successor but for the successor of my successor. I think about that. We are setting up now already research and development for how we can get oil out of the ground that is much more difficult in an oil sense. This is years of research, development. But we have already looked into where we can buy or get access to the acreage now.

So you have to think really about the 10- or 20-year [effects of] what you do today. And if you don't do that as the senior leader, the chances that you get the organization motivated about that over such long time horizons is pretty low. So you have to drive not only what would happen if I don't interfere, but at the same time you have to force yourself to think, “Well, which steps do I take for myself today? What do I promote?” And maybe somebody in 2025 will say, “Thank you very much.” But that is not the normal nature, because the normal nature is that people like to be busy with the very short term and not with the long term.

It gives me more inspiration to think about the regrets than about the achievements. Because at the regret side, it is much better if you think about it because then in driving the company forward you don't create new regrets. And if I think about not only the last 5 years but the last 20 years, it is quite often that I say to myself, “Hang on. You had, already, the direction of the thinking. Maybe you had not all the proof, but the gut feeling, the intuition, was there. You could have made more speed. But then sometimes you were not sure, or you felt that a lot of other people were thinking differently.” There were always

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excuses. And sometimes we made good speed; we’ll say that as well. But I’m relatively impatient. And if I look back sometimes I think, hang on, we should have made even more speed. Usually my regrets are those kinds of things. [○](#)

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