

Analysis of the Financial Strategy of SHELL Petroleum Company

Kholoud Djihed Ben Sayah^{1*}, Fatima Zohra Ben Seghier², Nour Elhouda Mahdjoubi³

¹ Kasdi Merbah University(Ouargla), bensayehdjihadkhouloud@gmail.com

² Elarbi Tebessi University (Tebessa), fatima.benseghier@univ-tebessa.dz,

³ Kasdi Merbah University (Ouargla), nouralhouda645@gmail.com

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Abstract:

This study aims to define the concept of financial strategy and strategic diagnosis in the organization. By referring to the study on Shell as a leader in the field of energies and petrochemicals, during (2016-2017), through an analysis of its achievements and goals. Among the results of the strategy pursued by Shell is to focus on personal safety by expanding the scope of the impact by not harming people and the environment expanding the field of its investment in green investment as a confrontation of the energy challenge and in addition to this circumvention to the human element as Shell spent about 193 million \$ in social investment in all over the world during 2016.

Keywords: Strategy; Financial Strategy; Strategic Diagnosis; Shell Company

Jel Classification Codes : D4 ; L2

1. INTRODUCTION

The subject of this article is related to the financial strategy, which is important in the management's understanding of the difficulty in controlling this fundamental variable. This has affected the characteristics of the modern economic society and forced it to abandon its organizational structure at multiple organizational levels. The financial strategy is a place to perform its strategic role, like other functional departments in the company.

This article examines the financial strategy in various basic concepts. It is also possible to uncover and analyze the financial future of Shell, the subject of our study through identifying capital investment opportunities, identifying the best alternatives, managing receivables and accounts, and forecasting the financial status of profits and costs for future periods.

The strategy is geared towards solving the following main problems: What does the company do? What are its goals? What products do you put on the market? What markets do these products come from? What is the nature of competition? What can the company do to achieve its objectives? After defining the company's long-term goals, they are formulated in the form of medium-term plans, which in turn split into annual budgets to audit their data and facilitate their short-term embodiment.

2. Strategy definition:

The strategy is the sum of the long-term decisions through which the organization determines its mission, the range of products and markets it deals with, the uses of resources available to it, the competitive advantages it enjoys, the synergy between its different functions and activities, and the achievement of its goals and objectives in a balanced manner (Thiert RA, 1993, p. 53)

3. Strategy types:

1. **Offensive Strategy:** This type of strategy is concerned with the circumstances of the marketing environment or the competitive environment of the enterprise and aims to build the competitive position of the institution through several methods that take many forms including expansion, diversification, innovation, renewal, new market penetration, new goods or services.

2. **Defense Strategy:** This type of strategy is concerned with the internal conditions of the organization, which aims at addressing some internal aspects or threats, whether through the realization of the number of goods produced or the restructuring of the organizational structure or training and manpower development.
The strategy is also used to address market threats, the external environment, and the external competitive environment, for example, facing price war or rapid technological progress in service or product delivery.
3. **Stability Strategy:** This strategy means that the organization has some limited but major changes, i.e. maintaining its current status with minor changes such as improving quality or protecting the market share of the organization. This type of strategy also aims to provide resources in a particular direction. However, there can be a mixed strategy that is, combining the above-mentioned strategies aiming at eliminating old products, adding new products, discovering new consumers and improving productive efficiency.

3.1. Definition of financial strategy :

It is the choice of strategic decision-making criteria, because it aims to guide definitively and for a long time the activities and structures of the organization (Bierman, H. Jr, 1980, p. 64). It defines the level of sales and profit to be achieved by allocating financial resources to different projects. This strategy reflects the priorities and expectations of the institution in terms of obtaining and allocating funds within the institution. It also defines the general framework within which the best financial decisions can be made. The foundation will help to implement its overall strategy by providing the necessary financing at the lowest cost, balancing assets and liabilities.

3.2. Strategic Diagnosis:

1. The strategic diagnosis consists of two dimensions: internal diagnosis and external diagnosis, which are interrelated and complementary.
External Diagnosis is at the perimeter of the institution in its full dimensions, in order to reveal the opportunities for growth and development, which can be seized on threats to be avoided, including:
 - a) Demand Diagnostics (Hertz & H, 1983, p. 17): A list of some questions related to the appearance and development of the application, such as: What quantity is sold? Who buys it? When will we buy it? For any need.
 - b) Display Diagnostics (Robinson , R Jr; J.Pearce;, 1983, pp. 197-207): In this type, questions are asked about the sector's ability to meet customer needs, costs and burdens.

- These are: What are the costs of materials? Labor? The existence or lack of economies of scale? Funding needs?
- c) Competitive Diagnosis (Ross,S, 1977, pp. 23-40): Institutions identify competition in order to identify the objectives and strategies of their competitors, and questions in this type are usually: What are the objectives of the competitor? What is its business portfolio? What is its competitiveness?
 - d) Diagnosis of Competition Intensity: Institutions identify this competition to identify different tactics that can be used by competitors (Woo, C., 1983, p. 15), such as post-competition, offensive advertising
2. Internal Diagnosis: The internal diagnosis of the institution is based on the search for strengths and weaknesses within the institution by adopting several types of internal diagnosis (Tugrul & Calori , 2003, p. 35), such as: functional diagnosis, diagnosis by basic success factors (FCS) and diagnosis according to acquired abilities and knowledge
- a) Functional Diagnosis: This type of diagnosis diagnoses the main functions of the organization such as: productive function and marketing function.
 - b) Diagnosis by Key Success Factors: This method indicates that the success of the institution depends on the development of a strategic structure that contains the success factors in a particular sector. These factors vary according to the sector of activity. They may be according to cost or according to market share.
 - c) Diagnosis by Knowledge and Acquired Capacity: According to this type of diagnosis, the institution represents a tree, where the leaves and fruits represent the products sold, the sub-branches represent the activities, the trunk represents the professions, and the roots are the basic knowledge and capabilities of the institution.

3.3.Definition of Shell Petroleum Company (Shell Sustainability Report, 2016, pp. 8-17)

1. Company Profile

Royal Dutch Shell was founded in 1907, although their history dates back to the early 19th century. Is a global group of companies in the field of energy and petrochemicals, operating in more than 130 countries and has

approximately 108,000 employees and workers. Their headquarters are in The Hague, the Netherlands. Their CEO is Ben van Beurden. Shell Group is the Royal Dutch Shell plc, founded in England and Wales.

2. Mission

Their strategy seeks to strengthen their position as a leader in the oil and gas industry, helping to meet world demand for energy responsibly. Safety, environmental, and social responsibility lie at the core of their activities.

3. Shell Petroleum Activities

- a) Oil Extraction: There are two parts to extractive operations: exploration and production, gas and power operations:
 - Search for oil and natural gas and its production
 - Liquefaction and transportation of natural gas
 - Marketing and sale of natural gas and electricity
 - Converting natural gas into cleaner fuel for transportation and other products
 - The development of business opportunities for technology owned in the coal field
- b) Refining and Marketing: Their refining and marketing operations are related to two categories, oil products and chemicals:
 - Refining crude oil to produce a range of fuels, lubricants and chemical feedstock
 - Sale and shipment of crude oil and refined products around the world
 - Supply and distribution of gasoline, diesel and other refined products through a network of storage facilities, pipelines and tanker trucks
 - Marketing of gasoline, diesel, other fuels and lubricants for the use of houses, factories and means of transportation
 - Mixing, distribution and marketing of organic fuels (plant fuel)
 - Producing and selling petrochemicals to our customers from international industrial establishments
- c) Renewable energy sources, hydrogen and carbon dioxide:
 - Business development based on renewable energy sources, including wind and solar energy
 - Developing business opportunities in hydrogen technology
 - Coordination of research aimed at reducing CO₂ emissions, including the capture and storage of this gas

4. Shell statistics for 2017

- More than 70 countries are operating.
- 92 000 employees on average
- 57.1 million tons of LNG (liquefied natural gas) sold during the year
- About 9.5 billion liters of biofuels were used in gasoline and diesel sold
- Produced 1232 GWh of wind power in the USA and the Netherlands
- 3.7 million barrels of oil produced per day
- 22 of the refineries.

5. Financial performance in 2017

- Revenues were estimated at \$ 233.6 billion.
- Income by \$ 4.8 billion
- Capital investment of 79.9 billion dollars (Including the acquisition of BG Group Plc Group PJP).
- Investment in research and development by \$ 1.0 billion
- Invested \$ 26.9 billion in capital projects around the world

6. Facts on sustainable development in 2017

\$102 million is spent on voluntary social investment worldwide. From this:

- About \$ 44 million is spent on local programs for community development, disaster relief, education, health and biodiversity,
- About \$ 58 million is spent on their global themes: access to energy, strengthening of local skills and projects, education and STEM.

It is estimated that approximately \$ 96 million of their total expenditure in 2017 was in countries that are part of the UNDP Human Development Index 2015, which is known to have a GDP of less than \$ 15,000 per year per person.

In 2017, Shell spent \$ 45 billion on goods and services from 43,000 suppliers worldwide.

7. Shell's strategy

Shell's strategy now focuses on creating a simpler company that delivers higher and more predictable returns, and increased free cash flow per share; by investing in projects, reducing costs and selling non-core businesses. This is what will give them the re-formation of a more flexible and focused company.

Their strategy is to create a global investment status for shareholders, backed by Shell and the energy sector, and the need to adapt to the global

changes around them. The rising world population and living standards should continue to drive oil demand growth and gas for decades to come. At the same time, there is a current shift to a low-carbon energy system; the world is increasing customer choice, while energy prices continue to fluctuate.

In February 2017, Shell completed the purchase of BG, resulting in a significant increase in LNG activities around the world and deep-water oil and gas production in Brazil.

At the end of 2017, the core operating cost of the consolidated group was less than \$ 40 billion, less than those used to run Shell earlier. 2018 was expected to be lower again, especially after the acquisition of three quarters of BG employees moved to Shell

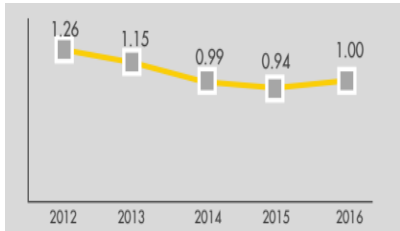
4. RESULTS AND DISCUSSION

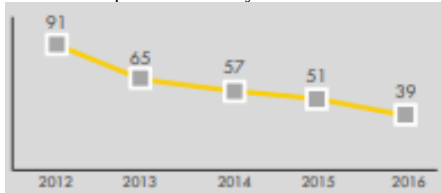
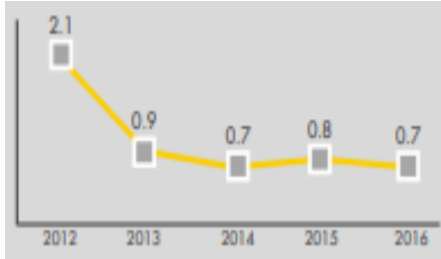
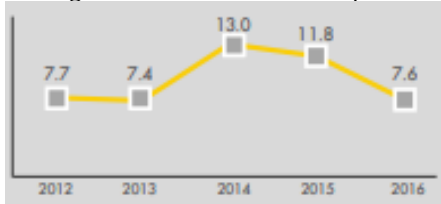
1.Shell's goals and performance for 2016 and priorities in 2017:

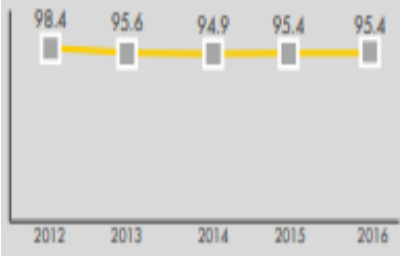
The table (1) represents a selection of global metrics that follow within the shell, these metrics were chosen because they reflect the direct impact of the sell operations on people and the environment. It was used to set goals and measure progress in 2016, and define priorities for 2017

For example, the Shell company provided zero goal personal safety in 2007. since then, the target has not expanded for no harm to people and the environment. More information on our performance, definitions of the indicators and the referenced goals are provided un the environmental data and social and safety data sections.

Table.1. Shell's goals and performance for 2016 and priorities in 2017

	2016 Goal	Progress in 2016	Priorities in 2017											
Personal Safety	Achieve total recordable case frequency (TRCF): The number of injuries per million working hours is less than 0.96 for employees and contractors.	Total Recordable Cases (TRCF)	-For road safety, proven practices have continued to replicate existing programs across all business lines											
	Goal Zero has been their personal safety ambition since 2007. In 2016, the TRCF has risen slightly compared to 2015.	 <table><tr><th>Year</th><th>TRCF</th></tr><tr><td>2012</td><td>1.26</td></tr><tr><td>2013</td><td>1.15</td></tr><tr><td>2014</td><td>0.99</td></tr><tr><td>2015</td><td>0.94</td></tr><tr><td>2016</td><td>1.00</td></tr></table>	Year	TRCF	2012	1.26	2013	1.15	2014	0.99	2015	0.94	2016	1.00
Year	TRCF													
2012	1.26													
2013	1.15													
2014	0.99													
2015	0.94													
2016	1.00													

Process Safety	Achieve a number of operational leaks below 54 (classified as “operational tier 1 process safety events.	Number of operational safety tier 1 events  <table><tr><th>Year</th><th>Number of events</th></tr><tr><td>2012</td><td>91</td></tr><tr><td>2013</td><td>65</td></tr><tr><td>2014</td><td>57</td></tr><tr><td>2015</td><td>51</td></tr><tr><td>2016</td><td>39</td></tr></table>	Year	Number of events	2012	91	2013	65	2014	57	2015	51	2016	39	-keep a strong focus on asset integrity and operational task execution -improve learning from process safety events with high potential impact.
Year	Number of events														
2012	91														
2013	65														
2014	57														
2015	51														
2016	39														
Environment	Achieve operational spills below a volume of 0.7(‘000 tonnes) (classified as “ hydrocarbons reaching soil or water”) Goal zero also extends to the environment with our goal of no operational spill. The volume of operational spills decreased slightly	Volume of operational spills in ‘000 tonnes  <table><tr><th>Year</th><th>Volume (‘000 tonnes)</th></tr><tr><td>2012</td><td>2.1</td></tr><tr><td>2013</td><td>0.9</td></tr><tr><td>2014</td><td>0.7</td></tr><tr><td>2015</td><td>0.8</td></tr><tr><td>2016</td><td>0.7</td></tr></table>	Year	Volume (‘000 tonnes)	2012	2.1	2013	0.9	2014	0.7	2015	0.8	2016	0.7	-keep focus on improving the reliability of our facilities to reduce the number and volume of operational spills. -continue to work with the oil and gas industry to further develop effective oil-spill emergency response capacities
Year	Volume (‘000 tonnes)														
2012	2.1														
2013	0.9														
2014	0.7														
2015	0.8														
2016	0.7														
GHG & Energy	Reduce flaring in our upstream business (million tonnes CO2 equivalent) Our policy is to reduce any continuous flaring or venting to as low a level as reasonably practical.	Flaring in million tonnes CO2 equivalent  <table><tr><th>Year</th><th>Flaring (million tonnes CO2 equivalent)</th></tr><tr><td>2012</td><td>7.7</td></tr><tr><td>2013</td><td>7.4</td></tr><tr><td>2014</td><td>13.0</td></tr><tr><td>2015</td><td>11.8</td></tr><tr><td>2016</td><td>7.6</td></tr></table>	Year	Flaring (million tonnes CO2 equivalent)	2012	7.7	2013	7.4	2014	13.0	2015	11.8	2016	7.6	-Link all shell performance bonuses to the management of greenhouse gad emission, including the reduction of flaring. -Work with the World Bank and focus on finding solutions to host-government funding for flaring project
Year	Flaring (million tonnes CO2 equivalent)														
2012	7.7														
2013	7.4														
2014	13.0														
2015	11.8														
2016	7.6														

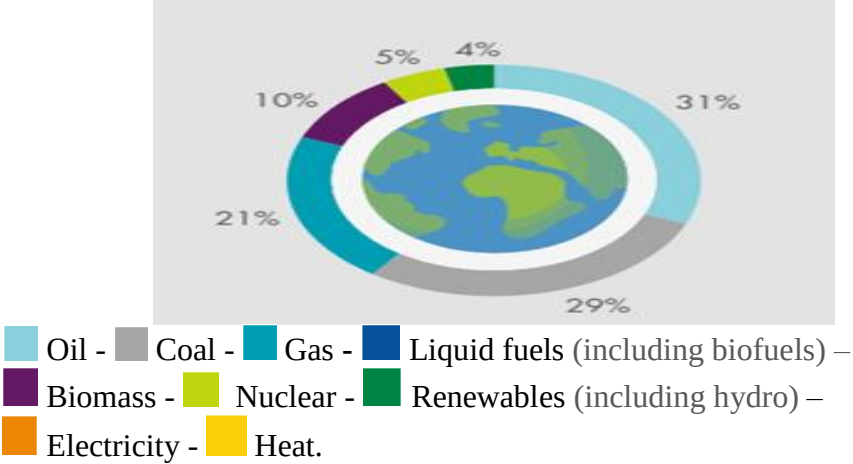
GHG& Energy	Achieve a refinery energy intensity below 92.2 (based on the refineries energy index) Achieve top level energy efficiency performance in our refineries . Improve energy efficiency to reduce our greenhouse gas emissions	Refinery energy intensity as refineries energy index  <table><tr><th>Year</th><th>Refinery energy intensity as refineries energy index</th></tr><tr><td>2012</td><td>98.4</td></tr><tr><td>2013</td><td>95.6</td></tr><tr><td>2014</td><td>94.9</td></tr><tr><td>2015</td><td>95.4</td></tr><tr><td>2016</td><td>95.4</td></tr></table>	Year	Refinery energy intensity as refineries energy index	2012	98.4	2013	95.6	2014	94.9	2015	95.4	2016	95.4	-link all shell performance bonuses to the management of greenhouse gas emissions, including the reduction of refining GHG -continue to focus on maintenance measures that enhance the reliability of our equipment -ensure sharing of tools and practices across shell.
Year	Refinery energy intensity as refineries energy index														
2012	98.4														
2013	95.6														
2014	94.9														
2015	95.4														
2016	95.4														
Social	The Community Feedback Mechanism (CFM) has been used to address community concerns since 2012, and continues to provide a standard implementation tool to monitor community feedback online which helps to enhance tracking and reporting concerns.	It has assessed online feedback at various stages and as a result has been able to evaluate data in categories that go beyond environmental complaints, including, for example, stakeholder involvement, property issues and local benefit-sharing	-Increased transparency in online work across all major operations, locations and projects under development in various lines of business: upstream, downstream, integrated gas and new capacities. -Perform a pilot project to assess the effectiveness of our CFM against the UN Guiding Principles on Business and Human Rights effectiveness criteria.												

Source: Shell Sustainability Report 2016, P11.

III.3.Today’s energy needs:

The world today currently consumes most of its energy from coal, oil and gas sources. Around a fifth of total energy consumption is electricity. Energy sources differ across the sectors of industry, transport, and domestic use which all need to transition to low-carbon energy options.

Fig.1. Current Global Energy Demand



The Source: International Energy Agency, Key world energy statistics 2015 and World energy outlook 2015

Fig.2.Domestic & Commercial -32

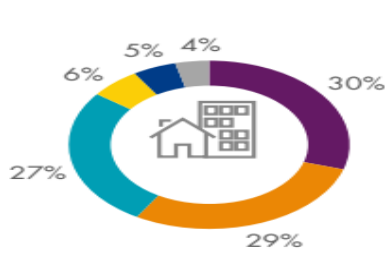


Fig.3. Industry -42%

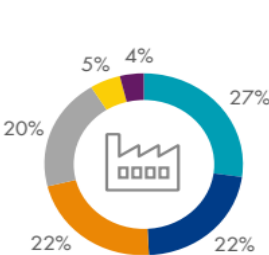
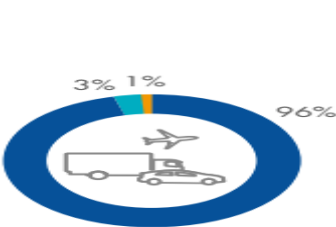


Fig.4.Transport -26%



The Source: International Energy Agency, Key world energy statistics 2015 and World energy outlook 2015.

III.3.1. Energy challenge

There is more demand for energy globally as the world's population and living standards increase.

Successful energy transition requires substantial investment across all energy sources including oil and gas production, to meet growing demand for energy¹:

1. Growing population: global population will Increase form around 7.4 billion today to nearly 10 billion by 2050, with 67% living in cities.
2. Rising demand: global energy demand will likely be almost 60% higher in 2060 than today, with 2 billion vehicles on the road (800 million today)
3. Ongoing supply: renewable energy cloud triple by 2050, but we shill need large amounts of oil and gas to provide the full range of energy products we need.

Mitigating climate change: net zero emissions is a potentially achievable societal ambition

III.3.2. Towards a low-carbon future:

Shell is working to meet the energy challenge in many different ways:

Fig.5.Shell's strategy to meet the energy challenge



The source: Energy Transition Shell Sustainability Report 2016

III.3.3. Investments

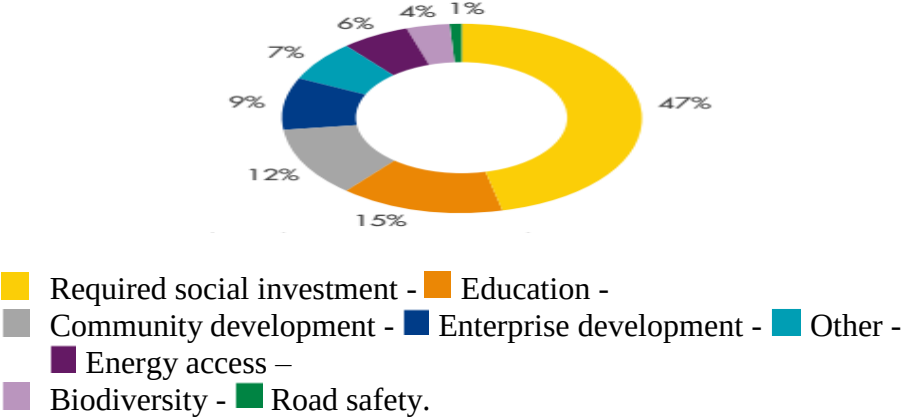
III.3.3.1. Social Investment for 2016:

Voluntarily invest in projects that aim to benefit long-term communities as well as invest in social programs as part of contractual agreements or legal requirements with host governments.

In 2016, it spent about \$ 193 million in social investments worldwide compared to \$ 219 million in 2015, and also spent \$ 102 million on voluntary

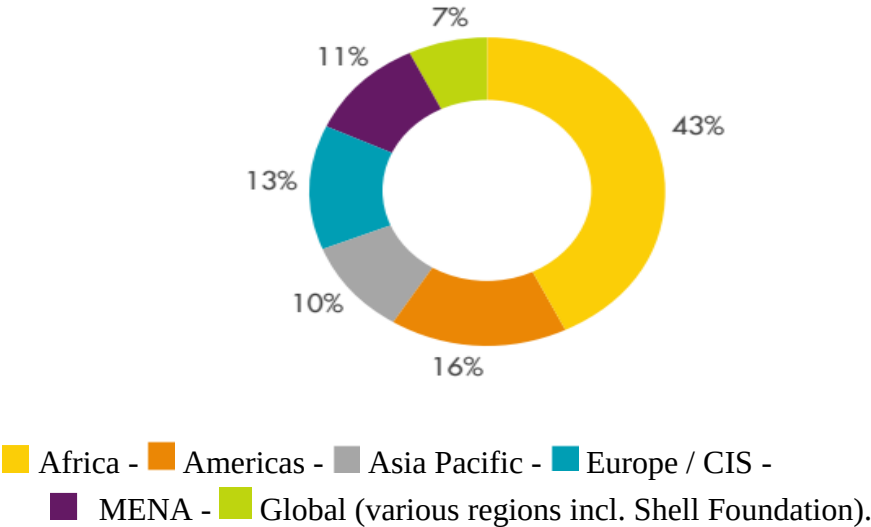
social investment, including \$ 58 million in line with its global themes: access to energy, Local skills and projects, STEM education is also about \$ 44 million on local programs for community development, disaster relief, education, health and biodiversity. It is estimated that approximately \$ 96 million of its total expenditure in 2016 was in countries that are part of the UNDP Human Development Index 2015, which are known to have a gross domestic product of less than \$ 15,000 per year per person, large in the form of voluntary work by Shell employees and donations of equipment.

Fig.6. Social investment in 2016 - proportion of spend



The source: Shell Sustainability Report 2016 Working Together

Fig. 7. Social investment in 2016 - split by region :



The source: Shell Sustainability Report 2016 Working Together

III.3.3.2.Environment and social partners: Shell works in partnership with environmental and development organizations. These collaborations provide an important vision for their work and work in partnerships to help reduce their environmental and social impact, improve land quality, and enhance benefits for local communities through the implementation of social investment programs.

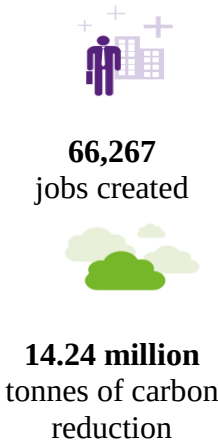
The map below provides an overview of how Shell works with partners around the world:

Fig. 8. Shell Partners



The Source: Shell Sustainability Report 2016 Working Together

Fig. 9. Shell Foundation’s impact to date





\$5.75 billion
funding leveraged



70.02 million
livelihoods improved

The source: Shell Sustainability Report 2016 Working Together

III.3.3.3.Product and Economic Supervision: The ERC - The External Review Committee - recommends that the company participates more in the report on policies and plans to develop Shell's product management thinking, including end-of-life, as well as the ways in which the ring economy may affect Shell's business.

III.3.3.4.Advocacy, partnerships and cooperation: Shell supports its position on sustainability issues, including climate change. There is growing global concern that oil and gas companies have called for the strengthening of climate regulations despite their trade associations and in private discussions with governments.

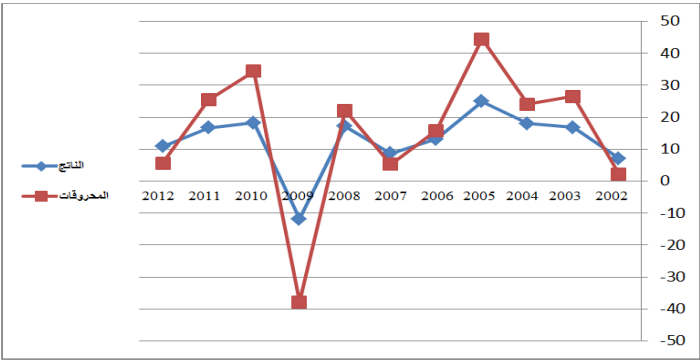
The ERC reports that future reports show when and how Shell's public positions on core issues differ from those of their trade associations.

Table 1. Table title (this is an example of table 1)

Test 1	Test 2	Results 1	Results 2	Total Results
15.21	15.21	15.21	15.21	15.21
18.58	18.58	18.58	18.58	18.58
11.14	11.14	11.14	11.14	11.14

Source: author's name, year, page

Fig.1. Figure title (this is an example of figure 1)



Source: author’s name, year, page

4. CONCLUSION

Shell, like any company, always strives to maintain its survival in the global market on the one hand, and in the other hand, Shell has placed itself in front of the energy challenge and facing the damages that may be contributing, even in a small part of it, to environmental issues such as climate change, etc. to this end, shell has adopted clearly defined strategic plans with social and economic goals at the same time, by investing in green projects, concluding agreements with international and environmental organizations, and paying attention to social, environmental and sustainable development issues.

We recognize Shell's commitment to transparency, best practices and stakeholder engagement, and there is progress in the 2016 report, particularly, the disclosure of changes in the sustainability components of the operational performance and compensation card, as well as the inclusion of more strategic themes.

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