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## McKinsey Quarterly

# McKinsey conversations with global leaders: Andrew Gould of Schlumberger

**Schlumberger's CEO reflects on the future of oil, the importance of investing in R&D, and the lessons he's learned about leading a borderless company.**



**Andrew Gould, CEO** of oil-field services giant Schlumberger, presides over 80 offices worldwide and a company that, as he describes it, has no national identity. In this video, the latest in our interview series *McKinsey conversations with global leaders*, Gould shares his views on why leading such a global company successfully requires a belief in meritocracy and equal opportunity across geographies, why oil production will remain strong despite the rise of alternative energies, and why science and innovation form the bedrock of Schlumberger. Ivo Bozon, a director in McKinsey's Amsterdam office, conducted the interview.

### **The downturn: A silver lining**

**The Quarterly:** *There are often silver linings in these crises. What are some of the opportunities you saw throughout this crisis for Schlumberger?*

**Andrew Gould:** The biggest effect in Schlumberger has always been the fact that we continue to spend money on R&D throughout a crisis. In other words, we take the view that we can afford to spend that money in order to have new products and services when the business comes back.

In the past, it's always been true that our competitors were somewhat cash flow constrained and therefore had to cut R&D. And while that's not true of my two largest competitors this time around, it certainly is true of the small ones. So there's that aspect of R&D. The other aspect is that when the business is booming, like it did for the five years before 2008, it's very difficult to keep up with the R&D in every segment.

And therefore, this pause gives you an opportunity to get back places where you think you've lost it or where you don't have distinguishing products and services. So I would say that the biggest silver lining for us is time to work on R&D. And I think that the other one really does boil down to the fact that there are far more M&A opportunities around in the crisis than there were in the five previous years, particularly given the credit squeeze.

They're in the small ones, the companies that can no longer get the funding they thought they could get for second-stage development and things like that. So we have done a lot of very small acquisitions in niche technologies, or growing technologies, that we probably would have not had the opportunity to do had the credit boom continued.

We've had a separate M&A group. And the M&A group has two functions. The first is normal M&A. But the second is it has a group of technologists within it who just spend their time identifying and following up on small companies. And actually, we have, for the last four or five years, been making step investments into technologies that we think are interesting.

**The Quarterly:** *How important, in that whole light, is the big acquisition of Smith for Schlumberger?*

**Andrew Gould:** It's an acquisition we've always wanted to make. But it was an acquisition where we could never get the seller and the buyer to agree on what the right price was. And to the extent you talk about silver linings, I think that the current market circumstances have helped buyers and sellers to reach an agreement. Because the exchange ratio we're giving is in fact the average exchange ratio for the last five years. And if you went back two or three years, we would have paid a lot, lot more for it.

In fact, one of the mistakes we made just after I took over was we sold the drill bit company because we had a debt problem at that time. But in fact, we realized very shortly after that we shouldn't have done that. And so we kept an R&D effort going on drill bits and drill string mechanics, all through the period that we didn't own them. So in fact, when we do get closure on this acquisition, we will have quite a lot of products and services that we can bring to the market fairly rapidly.

#### **In the industry: Greenland and Iraq**

**The Quarterly:** *We are now at the beginning of 2010—what's your current short-term outlook to next one or two years?*

**Andrew Gould:** We think that absent a double-dip recession that the oil price is going to remain strong. In fact, we think it's probably now going to have a floor between \$70 and \$75 [a barrel]. But, largely because of the huge increase in LNG<sup>1</sup> that's taken place both last year and this year, the gas prices are likely to remain under pressure for two or three years. We're bullish on oil but somewhat negative on gas. And we think that our customers, if this oil price holds up, will in fact go back to doing more exploration than perhaps they did in the last two years.

**The Quarterly:** *What discontinuities do you see in the next five to ten years in the energy market?*

**Andrew Gould:** Despite technology advances in electric vehicles, battery technology, hybrids, and all the rest of it, it's going to take a very poor world economy to actually take away the ultimate demand for oil.

And as the supply of oil is becoming more and more difficult to fulfill at this point in time, I don't think there'll be any major discontinuity. The only thing I think you can perhaps describe as a discontinuity is that in oil, the swing towards OPEC<sup>2</sup> production is only going

<sup>1</sup> Liquefied natural gas.

<sup>2</sup> Organization of the Petroleum Exporting Countries.

to go on increasing. And how that is managed will be quite crucial to the speed at which substitute technologies come into the market for transportation. I think that if there is one discontinuity that should happen—but I'm not sure that it will—it's that every economy should make the effort to substitute natural gas for coal because of the much lower CO<sub>2</sub> emissions and other emissions that natural gas has compared to coal.

I think it should happen in the US. I think it should happen in Australia, to a certain extent. I think that it could happen, to a certain extent, in China and India. But I doubt it's going to go quite as fast, because of the costs—because of the capital expenditure involved for those countries, coupled with the fact that countries like India and China have to grow their electricity generating capacity at such a rate that they're going to be using coal anyway for the next five to ten years. But over time, I think natural gas should take market share away from coal, and the place where it should happen first is in the US.

**The Quarterly:** *In the context of a changing-energy world, do you see any changes for the oil-field services industry?*

**Andrew Gould:** I think that projects are going to get bigger and they're going to get more complex. They also, to a certain extent, are becoming more remote. In other words, when you see people starting to drill offshore in Greenland, or offshore in New Zealand for that matter, then the remoteness and the logistical complexity and cost of those projects are such that I think the traditional model of procuring each individual service from different vendors and then doing all the integration oneself is going to diminish.

So I do think that the larger companies who can offer a volume, a different spread of services, and can cover a number of the activities that customers traditionally would have integrated themselves, that model is going to spread. And the first place it's going to be very obvious in is in Iraq. Because in Iraq, not only do you have the problem of the fact that there is very little infrastructure existing, you have problems with logistics. You have problems with security. And because of the terms that the operators have signed, you have a problem with speed. And therefore, they're going to look for the solution that can be mobilized the fastest. And that solution is normally an integrated solution of some sort.

### **The big picture: Global rebalancing**

**The Quarterly:** *We see that, over time, the emerging markets are going to account for a large part of the world economy. What have you done in the past to be such a strong global player, and what are some lessons you can share for other companies that want to globalize?*

**Andrew Gould:** The first point is that Schlumberger probably for the last 40 or 50 years has not had a nationality. It's not a French company. It's not an America company. When

the Schlumberger brothers formed a holding company, it was to avoid family death duties, or taxation on succession. And they formed a company in the Netherlands Antilles. So we've never domiciled in one of the large countries.

So that's the first thing, the fact that we don't have an obvious political or nationality identity. In fact, that's very important. The second thing is that one of my predecessors, Jean Riboud, his wife was Indian. And in the early '60s, he used to go to India every year. His wife came from a very cultured family, and he used to meet all sorts of smart people. And he came back and said, "Look, I don't understand why we only hire engineers from France, the US, and occasionally the UK. We should be hiring them wherever we work." So we made a rule that we would hire engineers from every country equivalent to the number of engineers we required to operate in that country, but they would not all work in their home country. We would always start half of them outside their home country.

So that's the second thing, that we created an international recruiting machine 35, 40 years ago. And then the third thing is that you cannot hope to succeed in becoming truly multinational unless [your company] is truly equal opportunity. One of the American oil companies was very big in Egypt, at one stage. And they came to us and they said, "We want to understand how it is that you can hire better Egyptians than us, because we're a big oil company and you're a little service company."

And so we said to them, "Would you please explain to us how far in your company an Egyptian could go?" And they said, "Well, he might become the local general manager." And we didn't say anything. Then they said, "Aren't you going to reply?" And we said, "You just answered the question." So, we have had a policy of equal opportunity purely on merit.

It's taken 20, 30 years for it to distill. But today, the fact is that people who join Schlumberger know they have totally equal opportunity and that it's only merit that counts. So I think those are the three things. And finally, you have to believe in [what you're doing]. And believing in it means that you have to accept that you're going to work with people of different cultures and that no one culture is going to dominate. And you have to accept that certain cultures have different ways of approaching problems. And while that sometimes makes conversations awkward, the fact is that almost every culture has something valid to contribute.

**The Quarterly:** *You've also been very good at actually getting your foot in first, at scale, in some of the emerging markets in Russia and China.*

**Andrew Gould:** Russia was a case of not being frightened. In other words, we were absolutely, totally aware of how important Russia could be. And therefore we took risks. And part of those risks were due to the fact that we are used to working with other cultures.

And going into Russia in a big way at the beginning and trying immediately to become Russian. So we didn't just go in to get contracts. We went in. We built a research lab. We built manufacturing facilities. We immediately started hiring Russians.

Because, actually, the way we looked at that was to say, the only way we're successful in the US is if we try to be a US corporation. And therefore in Russia, it has to be exactly the same. So we didn't go in just on a short-term basis. And it was very obvious to the Russians, once we starting building labs and manufacturing facilities, that this was a long-term investment for us.

**The Quarterly:** *And in China, in that context, you have an enormous engineering and research—*

**Andrew Gould:** So in China, funnily enough, at the moment our big research-and-development investment is in software. We decided we were too late to go to India. So we built a lab, which is on the campus of Tsinghua University in Beijing. So we basically hire from the two universities, Beijing and Tsinghua. And it's now at 350 people. The average age is probably about 30. And the creativity and the productivity, the level of productivity, of that lab is incredible. It's scary. It really is scary.

I mean, we took a program from the US, which was going really badly, and gave it to Beijing. And Beijing's first reaction was, "You're trying to kill us, huh? You're trying to kill this lab." Then they buckled down and they did it. I mean, it was extraordinary.

If you hire from Tsinghua in Beijing, you're obviously hiring from a university that's been able to select from a huge population, so you're getting really smart people to start with. But what I find absolutely extraordinary is the enthusiasm and dedication that they put into what they do. And I'm afraid it's something that the West has, you know, not lost, but we better wake up.

I think the big unknown in the oil-field services industry is the ultimate role that the Chinese are going to play. Because today, the Chinese service industry is very much based on their manpower advantage, and therefore they have been extremely successful in businesses where they can purchase the technology. But the technology requires huge amounts of manpower to implement. So the obvious case is land seismic. And they're becoming very large in land drilling. But they have not yet moved up the technology chain to the point where R&D dominates and the manpower is insignificant. They are a truly competitive player, but there's absolutely no reason why they shouldn't get there if they try hard enough. So I think that's another thing that the oil-field services industry has to watch very carefully.

### **Business in society: Ethics and climate change**

**The Quarterly:** *There are a number of groups that think that business has to have a bigger role in society and a bigger responsibility than strictly business in society. Do you see some of those requests on Schlumberger?*

**Andrew Gould:** Schlumberger has a tremendous advantage: I don't sell anything to the general public. If I added up all my clients everywhere, it's probably less than 500,000 people. And they tend to be generally either engineers or people with a university education. So the debate that we have with our customers is very different from the debate of someone who sells gasoline on the corner.

Perhaps the first thing, in our looking at these things, is the fact that we hire 2,500 graduates a year. And we hire them from a lot of countries. People have preconceived notions about various nationalities, and therefore the only way we can get over those preconceived notions is to have a very strong ethical policy and ethical-compliance policy.

And if you join Schlumberger tomorrow, in the first week you will be taught three things: how to be safe, how to be ethical, and how to use our IT system. And then on climate change, our opinion—and it's my opinion, this is a very personal thing—is that there is sufficient evidence of an increase in the level of emissions in the atmosphere to be concerned about the effect that it may have on the climate. But the science of climatology is by no means complete, and it is going to take a long time before we really know what the effect of these emissions is going to be. In the meantime, it is prudent and reasonable to try to reduce those emissions as much as we can.

**The Quarterly:** *And the alternative-energy sources?*

**Andrew Gould:** I don't think there's a silver bullet in alternative energy. In other words, I think that, as we said in the National Petroleum Council *Hard Truths* report,<sup>3</sup> every source of energy is going to be necessary. I think the question is how those sources of energy get used. And to the extent that they are only used because they are supported by subsidies, I'm not always convinced that that's the right thing to be.

Now, I do think that longer term, there is huge potential in solar. But it's probably still 15 to 20 years away before you get a proper way of distributing power at the right cost. And you get silicon or other materials down to a cost which makes it really cost effective. But long term, I think that has to be a key alternative-energy source. I'm not a great believer in biofuels, because, while they're good in the energy security equation, I'm not sure that—until there are really scientific breakthroughs in cellulosic ethanol—that they are cost effective or even carbon neutral in the energy balance.

<sup>3</sup>*Hard Truths: Facing the Hard Truths about Energy*, National Petroleum Council, 2007.

I have trouble with wind. I was talking to the head of a major German industrial conglomerate the other day, and he told me that if there weren't subsidies, he would be losing money in those businesses—which is why we are big bulls on natural gas. And we also very much think that oil should be reserved for its optimal use, which is transportation, and that efforts to sequester CO<sub>2</sub> where they are economically viable should be undertaken. And we do point out that energy is the source of economic growth; the world is not going to stop growing because of CO<sub>2</sub> emissions.

We don't have a huge footprint like the oil companies, and therefore we think that the best contribution that we can make to development and sustainability is in education. So we run two major education programs. For example, we've been running a water-purity experiment across about 50 countries for the last five years, where we give kids a test kit, they test the water, they record the results on the computer, and the whole thing's put together. And it's very satisfying for our employees in a particular place to feel that they contribute in that way.

The second thing is a fabulous program where we have a foundation that was originally created in the United States and in Holland to contribute to educational causes. And we have diverted the whole of that to giving scholarships to women from the third world to pursue postgraduate studies. We currently have 60 or 70 ladies in different universities around the world doing doctorate and postdoctorate studies. They have no obligation to come and work for us. The only obligation we put on them is to go back to their own country and teach for a few years after they finish.

### **On leadership: Stepping up**

**The Quarterly:** *You've been the group treasurer at Schlumberger. You've been the COO. And now, since 2003, the CEO. What was, for you, the biggest difference in the CEO role versus all the other leadership roles you've had before?*

**Andrew Gould:** I think the fundamental difference of being a CEO is it's [like what] Harry Truman [said]: the buck stops here. You're on your own. Yes, you have a board of directors. But the fact is that on day-to-day decisions in the company, you can consult everybody you want, but in the end it's going to be your decision.

And therefore, it is—and I always say this to people who I meet who are becoming CEOs—actually it's quite lonely. And I don't mean lonely in the sense you don't see people. It's lonely in the sense that you have to make the decisions on your own.

**The Quarterly:** *Is it quite a big step up in terms of skills, capabilities?*

**Andrew Gould:** I think the difference is that when you're a CEO, you're juggling far more communities than when you're just COO. And you can't ignore any of them. So you're

juggling a board of directors, your management team, your shareholders. Occasionally, not so much in our case, you're juggling the press, public commentary.

In fact, I went to a three-day seminar at Harvard Business School, which was conducted by Michael Porter, which was excellent, because they didn't talk about skills or anything. They just talked about how to manage the different constituencies.

**The Quarterly:** *What works and doesn't work in the transition when you step into the role the first 30 days, the first year? What are some of the lessons that you've learned?*

**Andrew Gould:** I think it's important to give an incoming CEO, if you can, a long enough apprenticeship period—as COO or whatever—for him to be able to formulate his own plan. Because I think it's much better if he or she can formulate their plan before they actually get into the job, rather than having to do it once they get there. Because once you get into the job, particularly a new CEO, there are all these different calls on your time.

**The Quarterly:** *How important is it to form a new team? How do you actually get control over a team?*

**Andrew Gould:** You're probably going to know the team of the outgoing CEO. And you're probably going to identify the people who you know are going to transition to you very easily, and then there will be, always will be, one or two who probably won't transition.

And the only advice I would give is, I love the story of Voltaire, who arrived in the UK at Portsmouth. And the first thing he saw was a British admiral being shot for having lost his ship in the Scilly islands. And his phrase was, "I suppose they're doing that *pour encourager les autres*," "to encourage the others," you know? So I think that if a new CEO has one or two recalcitrant members of the team, unless they're absolutely essential, he should change them.

**The Quarterly:** *Are there any things that you feel you've done particularly well, or things that you would have loved to have done more of, or quicker?*

**Andrew Gould:** I take credit for having restructured the activity of the company. I won't take credit for the oil price. I mean, I was just very lucky that the restructuring was completed at the time the oil price took off. The other is the progress that we've made in gender diversity in Schlumberger in the last 15 years, but particularly the last 7 or 8 years. For an oil-field services company, we're doing really well. And that's very satisfying to me.

Today we have 16,000 professional women. We currently, in our recruiting, hire close to 25 percent females as engineers. Out of our nine current segments, two of the presidents

are women. And I didn't have to break the glass ceiling for them. They were the natural successors to those activities. So I think we are on track to do pretty well.

**Management lessons: Enabling innovation**

**The Quarterly:** *What are some of the specific actions you take in your leadership style to influence people in your company?*

**Andrew Gould:** I think successful companies have to have clear values. The first value is that technology is the basis of our competitive success. The second is, the people are our guarantee of the service quality, safety, and the future of the company. And the third is that our financial independence is essential to managing our own future. So, technology is the way this company was founded. The father of the Schlumberger brothers gave them a sum of money; and he gave them the sum of money on the basis that they spend it on science and that science should come in front of financial results. And while I can't claim that's still 100 percent the case, it's still a very strong influence on the company. So for example, going into this downturn, nobody suggested we cut R&D.

And in research, I would say 80 percent, or 70 to 80 percent, of what we do is in line with what we think the industry requires, and 20 to 30 percent—I won't describe it as blue sky, but the way we say it is we are trying to do things that our customers don't think we're capable of doing. So being persistent is extremely important, as is not giving up just because the budget's been overrun or because you don't think it's possible. Of course, occasionally we have huge failures, and people accept that there are huge failures. So I would say that the biggest reason we've been able to sustain a lead is the fact that we actually have a strong belief across the company in research.

**The Quarterly:** *What's your personal role in the company's research? Are you personally, deeply involved? Do you make trade-off decisions?*

**Andrew Gould:** I'm not a scientist, but I do have a lot of experience now of interfering. In fact, this morning I was upstairs chasing someone about a particular program on shale gas, saying, "Where do you stand? How long is it going to take to classify this new product? How long is it going to take with all the rest of it?" So people know that, yes, I follow. And so do all my team around me.

I have a rule in my team that I can contact any level of the organization, provided I don't contradict in the conversation—or whatever it is, the e-mail—what the intermediate levels of management have said. But if I need information, I call the person. And they hate it. My team hates it. But they know I do it and it's become a joke. "How does he know that?" "Well, he obviously called the manager in Abu Dhabi or whatever it is."

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But actually, I think it’s extremely important, the fact that I contact people much farther down in the organization. Everybody knows that, and it makes you more human to them. I think that it’s very easy to become inhuman in a glass tower in an office, with all sorts of people protecting you from information.

**The Quarterly:** *Instilling performance in people—what have you learned on that?*

**Andrew Gould:** People have to believe in what you’re trying to do. Secondly, they have to believe that they can do it. And thirdly, they have to believe that *you* think they can do it. In other words, I think leadership with a stick is not very effective; but leadership with an understanding and a carrot can be extremely effective. Somebody said to me once that people *want* to do what you want them to do. And it’s not a stupid way of describing a leader’s role.

**The Quarterly:** *You’re battling the war on R&D but you’re also battling the war on talent. Do you see particular issues going forward in that terrain?*

**Andrew Gould:** The issue we have is replacing experience. Basically, a whole generation who went into the industry in the boom period of the ’70s is about to retire. And therefore, the issue we have is transferring that knowledge to a younger generation. There are a number of things we can do—accelerated training methods, retaining retired employees as mentors has been extremely successful. A lot of them, if they’re geoscientists, geologists, or geophysicists, they don’t want to totally retire, but they don’t want to work full time. So if you give them a job or you give them some part-time consulting work or—even more satisfactory for people who have that frame of mind—a job mentoring younger people, it works very well indeed.

And then, of course, the other thing is technology. In other words, today’s technology allows you to share knowledge. So, for example, a lot of the geoscience support to an ongoing operation will now be remote. For example, the center in Aberdeen will be supporting a job offshore in Nigeria in real time.

In drilling, we have what we call operation service centers, whereby you’ll have two very experienced drilling engineers supervising maybe five or six rigs at the same time. Or you have young trainees on board. So we’re trying to do it through technology, mentoring, and bringing people on faster through training. ○