10 The 'Americanization' of Shell Oil[1]

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Americans tend to think of the oil industry as essentially American. In 1859, the first commercial oil discovery was made at Titusville, Pennsylvania. By the end of the century, an ambitious entrepreneur from Cleveland, Ohio, John D. Rockefeller, had created not only the largest oil business in the world, but indeed the largest industrial enterprise in the world. For the next 50 years, the United States led the world in both oil production and oil consumption. Five of the seven largest oil firms in the world – the famous or infamous 'seven sisters' – were American. Even as numerous other countries vastly surpassed the United States in oil production after World War II and gradually wrested control of their oil sources from the major oil companies, the idea of the oil industry as organically American has remained a staple of the nation's cultural identity, even up to the present.

What Americans do not often realize is that foreign direct investment (FDI) contributed significantly to the development of the US petroleum industry. In 1950, as Mira Wilkins notes in Chapter 2 of this volume, FDI in this industry was $400 million, nearly 12 per cent of total 'inward' FDI. Nearly all of this $400 million was accounted for by the Shell Oil Company, whose majority owner was the British-Dutch oil giant, Royal Dutch/Shell. Formed by the famous 1907 merger between Royal Dutch Petroleum and the English Shell Transport & Trading Company to compete against Standard Oil in world markets, the Royal Dutch/Shell Group grew to become one of the largest and most internationally dispersed enterprises in the world. A key aspect of this growth was the emergence of the Group's US affiliate as a major oil company in its own right.

Throughout most of its history, Shell Oil enjoyed a considerable degree of autonomy from its majority shareholder. During the 1940s and 1950s, Shell Oil both expanded and consolidated the many parts of its business in the United States. In the process, it projected a new public image, downplaying its majority foreign ownership and declaring Shell to be an American company, with American directors, and guided by American decision-making. 'We pitched this strongly', said a Shell Oil corporate secretary from this period, 'and we believed it'. The average American

also believed it. Even to this day, many Americans think that Shell companies around the world are subsidiaries of the Houston-headquartered Shell Oil.

This essay explores the theme of Shell's 'Americanization'. More than just a public relations ploy, Americanization refers to a real assertion of independence by the American company from the Group after World War II. Explaining why and how this came about requires attention to contexts at both the national and international levels. It forces us to think about the United States as a 'host country' for foreign investment, an understudied aspect of the history of multinational enterprise. It also gives a new twist to the concept of 'Americanization', which has been used almost exclusively by scholars to describe the uni-directional transfer of American products, media, and cultural practices to foreign countries (Gienow-Hecht 2000; Kipping and Bjarnar 1998). Although the sources for this study are grounded in the American side of the story, this essay attempts to look at the evolution of Shell Oil from the Group's perspective and in terms of the international structure of the Group.

As Bamberg points out in Chapter 9, the international oil industry expanded in the twentieth century through strategies of vertical integration across national borders, which gave the oil majors tremendous 'internalization' advantages, to use Dunning's eclectic paradigm, in moving oil cheaply and efficiently from oil fields through refineries to consumers (Dunning 2000). Royal Dutch/Shell (RD/S) certainly was no exception to this trend, but the extension of its operations across national boundaries was not seamless, and for decades there was actually very little integration between the Group's operations inside and outside the United States. RD/S's initial entry into the United States had more to do with the two other kinds of advantages indicated by Dunning's paradigm: locational and ownership advantages. The locational advantages of the United States lay in its large petroleum resources and consumer market. The ownership advantages RD/S could bring to exploit opportunities in the United States included, most importantly, advanced engineering and technical proficiency. Investment in the United States also had strategic importance: it allowed the Group to become more competitive globally with chief rival, Standard Oil.

Although US oil developments greatly influenced global pricing, most oil production in the United States was for regional markets or the national market. Political, legal, and cultural constraints, in addition to industry structure, dictated clear administrative and operational divisions between the Group's US affiliate and the rest of its far-flung global empire. In an imperfectly integrated world economy consisting of many distinct national economies, and with a prospering and protected US oil market, this division suited the Group's increasingly decentralized approach to international investment and management during the post-World War II period. If British Petroleum can be described as 'essentially

a national company with international operations' (Bamberg, Chapter 9), then Royal Dutch/Shell was essentially an international organization with national operations. But as the locational advantages of oil in the United States began to decline relative to other producing countries by the 1970s, and as the world economy became more thoroughly integrated, the advantages of internalizing the Group's US assets and operations grew in importance to its global strategy. Although their oil interests in the United States were quite different, British Petroleum and Royal Dutch/Shell faced many of the same barriers to internalization, which they both successfully overcame in the 1980s and 1990s when domestic and international conditions in the oil industry changed dramatically.

Operating in Standard's backyard

Royal Dutch/Shell first entered the United States on the eve of World War I. With the intensifying price wars between Standard and the Group in the Far East and Europe, the United States became increasingly important to the Group's global strategy. 'When our business grew to such international dimensions', explained Royal Dutch's brilliant but autocratic chairman, Henri Deterding, 'we obviously had to dig ourselves in as traders on American soil; otherwise we would have lost our foothold everywhere else. Until we started trading in America, our American competitors controlled world prices – because ... they could always charge up their losses in underselling us in other countries against business at home where they had a monopoly' (Beaton 1957: 58). The US Supreme Court's 1911 decision to dissolve the Standard Oil trust into 33 separate companies stiffened Deterding's resolve to 'operate in Standard's backyard'. He regarded the case as a clever legal gimmick that did not prevent the companies from acting in concert.

In 1912, Shell established a small marketing company in the Pacific Northwest, stretched down the coast into exploration and production in California, where it made famous discoveries at Signal Hill and elsewhere, and then broadened the hunt for oil into Oklahoma. Shell's rapid expansion threatened Standard Oil and its offspring, who maligned Shell as a foreign exploiter. Burgeoning numbers of tank cars and service stations painted in Shell's emblematic yellow and red colors provoked William Randolph Hearst to dub Shell the 'yellow peril', presumably at the behest of Shell's rivals ('Oil – Shell's Game' 1952: 21).

Deterding came to realize that building a large and powerful Shell organization in the United States might require enlisting American capital to keep the American public favourably disposed to it (Beaton 1957: 229). The Union Oil Company of Delaware presented Shell with such an opportunity. This company, which owned 26 per cent of the Union Oil Company of California, had fallen on hard times and was ripe for takeover. A merger between Shell and Union in 1922 brought all companies under a holding company called the Shell Union Oil Corporation, with approximately 65 per cent of the stock held by the Group (through another subsidiary called the Shell Caribbean Petroleum Company) and the remaining 35 per cent held by groups of US investors. Shell's move to 'go public' almost backfired, however. A majority of Union California's stockholders formed a bloc dedicated to preventing Shell's interest in their company from growing. The campaign even recruited national politicians who, preying upon anti-British sentiment leftover from World War I, charged Shell with being a tool of the British government. Shell Union weathered this storm by disposing of its Union California stock, but keeping the minority shareholding interests. The company then gained new public acceptance by maintaining a clean reputation during the oil scandals of the mid-1920s (Beaton 1957: 206–34).

During the interwar period, Shell built and acquired new refineries and pipelines, established affiliated companies in research and chemicals, and expanded marketing into the East Coast. The Group's American operations, however, consisted of several operating companies governed by two separate organizations, one east and one west of the Rocky Mountains. The company retained duplicate sets of vice presidents and department heads in New York and San Francisco. Each organization had its own philosophy and approach. Few moved between the two. Some individuals from the West had moved East, but not vice versa. Friendly competition existed between the regions, and those on the Pacific Coast exuded an air of superiority. After all, Shell had made its name there. The California company had been the first of the Shell companies to develop a successful, integrated business. California had given the company a 'springboard to prominence', in the words of historian Kendall Beaton, with a bonanza of low-cost crude from legendary fields like Coalinga, Signal Hill, and Ventura. Gasoline sales in California, especially during the 'Golden Era' of the 1920s, outpaced every other state. During the depression, West Coast earnings helped offset large losses in the mid-continent (Beaton 1957: 171–91).

The West Coast may have been the company's moneymaker in years past, but by 1940 crude oil production east of the Rockies had almost doubled West Coast production. At the end of World War II, the West Coast no longer loomed as large in Shell's national organization. Although Shell continued to earn high profits in the region, it had lost market share and run up exorbitant marketing costs. Shell's 'cracker box' service stations, old metal constructions that sold relatively small volumes of gasoline, were scattered across the landscape. The few stations owned by the company were expensive to operate, as were the leased stations, whose dealers had received generous 1.5 to 2-cent-per-gallon concessions during a period of intense competition. Too many bulk plants existed in too many small towns. Despite the consolidation of some marketing divisions in the 1930s, the West Coast still had an extensive divisional

organization that included money-losing territories in parts of the northwest. In 1945, sales in the east exceeded sales in the west by two-to-one. By 1948, that ratio was three-to-one (Beaton 1957: 782).

With increasing frequency, refineries along the Gulf Coast resupplied the West Coast with fuel oil. West Coast refineries had built catalytic cracking facilities to increase the yield of gasoline, which diminished the production of fuel oil. This was just one sign that the three largely separate energy markets (East Coast, Midwest, and West Coast) were evolving into a single national market. Given these considerations, the West Coast could not remain independent within the Shell family very long. Alexander Fraser, president of Shell Union and long-time president of the east-of-the-Rockies companies (1933–47), and Sir George Legh-Jones, Shell Union chairman of the board and former president of the west-of-the-Rockies organization (1924–33), seized the opportunity to finish Shell's 'long-range plan of corporate simplification' when a number of executives born in the 1890s, including the head of Shell Oil's Pacific Coast operations, announced their intention to retire at the end of 1948 (Beaton 1957: 692).

Vice presidents from both east and west started moving to New York to take charge of nationwide operations. The least profitable stations in the West Coast's retail network were eliminated and Shell pulled out of sparsely populated territories in Western Montana and Utah. On 1 January, 1949, the formal centralization in New York went into effect. Under the new structure, the San Francisco office declined in relative importance to Head Office. The final step came in September 1949 with termination of the holding-company arrangement between the Shell Union Oil Corporation and its chief operating subsidiary, Shell Oil Company, Inc. Shell Union was renamed Shell Oil Company, acquiring all assets and assuming liabilities of the chief subsidiary, which was dissolved.

Shell Oil no longer consisted of a collection of small companies largely managed and coordinated from abroad. Now it was a single entity, financed through US earnings, with US managers taking more initiative in decision-making. In the late 1940s and 1950s, Shell expanded all phases of its operations on a nation-wide scale. It also bought out the Group's separate interest in its US research organization, the Shell Development Company, bringing it under direct control and making it more responsive to commercial considerations in the US market. The geographic and organizational rationalization of the Shell Oil Company was facilitated by the shift in management style from European paternalism to the kind of legalistic supervision common to American corporations, with growing teams of lawyers, lobbyists, and media specialists.

American citizenship

The simplification of Shell's corporate structure hinted at profound changes in the company. The number of Group managing directors

on the Shell Oil board declined from five to two. The wave of retirements cleared the way for Americans to move into both higher management positions, giving Shell new character and a sense of autonomy from the Group. Officers of the US Shell companies had always been Group men, British or Dutch citizens sent over for a time before leaving for other assignments with the Group. When they came to the United States, many remained largely external to Shell US. The War, however, disrupted the replenishment of Shell managers with Group men and slowed the entry of new people, foreign or American, into Shell ranks. In the late 1940s, a new influx of Americans filled a great need for engineers all across the company. Like other US corporations at that time, Shell hired a generation of young Americans who grew up in the Depression, many of them having served in the armed forces during the War.

The 1950s witnessed the evolution of Shell Oil from a medium-sized, foreign-controlled company, to a major industrial concern that few Americans regarded as anything other than American. By 1952, the company employed a stable workforce of 31,000, with twenty-seven vice presidents, most of whom were US citizens. As former president Monroe Spaght recalled, before the War 'one was forever apologizing and going out of his way to be sure that it was understood that we were American. With some of the senior people being non-Americans, that was a bit of a chore. This all changed after World War II'.

The naturalization of Shell Oil's Scottish-born president, H.S.M. 'Max' Burns (president from 1949 to1961) exemplified the gradual Americanization of Shell. All subsequent presidents of Shell, except one, would be American-born. Although Burns had risen to a high position within the Group, he nevertheless asserted increasing autonomy for Shell Oil within it ('H.S.M. Burns' 1951: 124). Under Burns, the company worked diligently to promote its image as a corporate 'citizen' of the United States. Managers strove to improve public relations across the country through philanthropy, fellowships and grants, and its popular traffic safety campaign. Burns made himself available to security analysts – unusual for a president whose corporation was only 35 per cent public. They discovered a very profitably run business that did not depend on its parent for capital. Shell had financed its tremendous postwar expansion with US dollars, largely from retained earnings and write offs (depreciation, depletion, and amortization) ('Oil – Shell's Game' 1952: 18, 25). The first-time listing of Royal Dutch Petroleum shares on the New York Stock Exchange in 1954, meanwhile, solidified ties to the US financial community and thus aided Shell's public relations push. Few within US financial circles challenged Shell Oil's reputation as US enterprise ('Full Circle' 1956: 25). The same went for the US oil industry. Max Burns was the first representative from Shell Oil to be named chairman of the American Petroleum Institute, the US oil industry's most prominent trade

association ('Portraits' 1960: 2). For a company once branded as the yellow peril, this event was rich in symbolism.

The Americanization of Shell Oil involved a reorientation of the US affiliate towards the Royal Dutch/Shell Group. By 1950, Shell Oil had matured into an adult member of the Royal Dutch/Shell family. It became a more autonomous and vital part of the Group's worldwide activities, representing 25–33 per cent of the Group's profits. The Group began to view its 65 per cent interest in Shell Oil as a sound investment that need not, and indeed should not, be micromanaged. When, in 1958, the Group set up its 'service companies' to mediate the relationship between the Group parent companies and affiliates around the world, Shell Oil was the only operating company not required to report to these new companies. As an outside observer once commented:

> There is no imported management at Shell. The Group does not call the signals from London or The Hague. The American managers don't carry chips on their shoulders against the Group's managing directors. They just provide healthy dividend checks every quarter.
>
> (Golden 1967)

The internationalism of Royal Dutch/Shell

From one perspective, the Americanization of Shell Oil revealed a greatly weakened and traumatized Royal Dutch/Shell organization. The Group had been devastated by World War II and the dismemberment of the European colonial empires. The maturation of Shell Oil within the Group corresponded to the new superpower status attained by the United States and the emergence of the US economy as the most dynamic in the world. During World War II, Shell Oil became the centre of innovation, a pioneer in the development of 100-octane aviation fuel and butadiene synthetic rubber. After the War, the US company helped the Group raise valuable dollars in the United States to pay for the expansion of oil production in Venezuela, Columbia, Ecuador, and Canada ('Shell Oil Turns' 1948). Shell engineers travelled abroad to retrain Group engineers in the latest advances and to assist the rebuilding of Group refineries with technologies developed in the United States, such as catalytic cracking. Shell salesmen helped the Group adjust to new competitive conditions around the world created by decolonization and the collapse of the famous 'As Is' cartel. In 1957, for instance, a German sales manager at Deutsche Shell boasted that his company had increased its market share in fuel oil thanks to 220 young salesmen trained in 'American style aggressive selling', whose 'prime aim in life is to beat their targets' ('Royal Dutch/Shell' 1957: 142).

On the other hand, the Americanization of Shell Oil was not something forced upon the Group by an upstart affiliate. Rather, it reflected a reorientation of Royal Dutch/Shell's global strategy. The western hemisphere played a pivotal role in this strategy, as an increasingly important source of crude (Venezuela), the largest market and source of capital (the United States), and the most secure base of operations in the event of another world war. Americanization also reflected the organizational agility and adaptability of the Group. It had always been a decentralized organization, 'not a corporation, not a legal entity, but a condition', wrote one US observer. 'This condition is international business in its most highly developed sense' (Howarth 1997: 262). Royal Dutch/Shell was simply a name used to designate nearly 500 companies owned (wholly, jointly, and indirectly) and coordinated by the British and Dutch holding companies.

Despite the decentralized and cooperative principles underlying the arrangement, control over the entire realm was based in The Hague and London, and Europeans made the big decisions. Prior to World War II, the Group hired only a few foreigners and nationals to run its affiliates, and then chiefly on the basis of 'how closely they resembled Europeans'. A classic Shell story tells of an urgent cable once sent from an affiliate to London: 'Lubrication oil sales dropped 5 per cent. Send two more cricket blues' ('Diplomats' 1960: 98). Sir Henri Deterding, moreover, retained a large amount power. His retirement in 1936 and death in 1939, however, followed by 5 years of global war, signalled the end of an era for Royal Dutch/Shell.

Out of the urgent necessity to recover from the devastation of the War, when the Dutch headquarters had to be relocated to Curaçao, the RD/S directors redistributed many functions and powers down through the organization. Contact and decision-making between the two parent companies became less distinctly clarified or formalized. To the extent they were, the seven directors – 'of a far different stripe than the rough and ready tycoons of the past', wrote *Time* magazine in 1960 ('Diplomats' 1960: 94) – formed the policy-making Executive Committee, which in 1958 was designated as the Committee of Managing Directors (CMD). Each director assumed a specific area of responsibility. 'Our job here', explained Felix A.C. Guépin, a managing director responsible for marketing and chemicals, 'is one of trying to unravel knots – but only to get the knot loosened up a little so you can look at it and see how it is going to come out. Then we hand it over to the operational managers' (Burck 1957: 140). Of course, top management retained final authority, especially on questions involving major capital expenditures. Wherever possible, though, Group executives refrained from getting bogged down in managing the day-to-day operations of its subsidiaries.

This was easier in some cases than in others. Group companies concerned with only one phase of operations required close coordination. Shell Italiana, for example, depended on the rest of the Group for oil, while Brunei Shell in Borneo looked to other Group companies to market its oil. Shell Oil, on the other hand, could function relatively

autonomously. It had built up fully integrated operations that were, for the most part, independent of the rest of the Group (Burck 1957). The versatility that the Royal Dutch/Shell people acquired through their experience with the Group's far-flung operations instilled in the organization a cosmopolitan outlook receptive to the Americanization of Shell Oil. Royal Dutch/Shell's Executive Committee or CMD consisted of 'inside' directors, all of whom had worked their way up through the Group, mostly on long-term assignments overseas. Their experiences trained them to 'think globally, act locally', to borrow a popular American dictum. It is fair to say that they recognized earlier than most other multinational firms the social and political appeal of employing qualified nationals in positions of authority, and not just as hired hands.

The young managing director, John Hugo Loudon, who by the mid-1950s was acting as *primus inter pares* among the seven managing directors, was one of the first to anticipate nationalistic trends and urge the hiring of more locals in executive positions. Once described as 'a handsome man whose casual movements seem under strict control and whose most deliberate movements seem strictly casual', Loudon exhibited the refinement bred by a cosmopolitan background (Burck 1957: 136). He had held positions around the world, spoke five languages fluently, and came from a distinguished lineage within the organization. His grandfather was a Governor General of the Dutch East Indies, his uncle was Holland's Foreign Minister, and his father, Hugo Loudon, was one of the founders of Royal Dutch Petroleum and later a managing director and chairman ('Diplomats' 1960). John Loudon and Sir Francis Hopwood, Shell Oil's chairman from 1951 to 1956, had the vision to recognize that the best way for Shell Oil to grow and develop in the United States was by making it a truly American venture.

The United States as host country

In addition to the organizational changes at Shell Oil and within the Royal Dutch/Shell Group, the domestic political context in the United States was also important to the Americanization of the US affiliate. Scholars who study multinational enterprise in the early postwar period typically focus on the political conditions or terms of entry that other countries, mostly developing ones, imposed on US overseas investment (Bergsten, Horst and Moran 1978). Less appreciated are the political risks faced by foreign investors in the United States, which was undergoing a revival of nationalism, isolationism, and xenophobia during the early Cold War.

Although no longer viewed as the yellow peril, Shell encountered obstacles at the state level that included laws and constitutions that forbade 'alien' landholding. At the Federal level, there were prohibitions against foreign ownership of coastwise shipping and restrictions on the leasing of Federal lands by foreign interests. Further, the Federal Trade

Commission's anti-trust investigation into monopolistic practices in the international oil business during the 1950s heightened fears that Shell might be singled out because of its foreign majority ownership (see below).

The perception of Shell as an independent company with significant American shareholders shielded it from the kind of scrutiny it received after World War I and helped it receive special consideration in cases where Shell's operations might otherwise have been restricted due to its foreign ownership. In the early 1950s, for example, the company successfully lobbied for an amendment to the state constitution of Washington that dropped a prohibition against alien landholding and paved the way for the construction of a new Shell refinery on Puget Sound ('Aliens Welcome' 1953). It is somehow appropriate that a company once branded 'the yellow peril' would be instrumental in overturning alien landholding restrictions originally directed against Asian immigrants. Revision of a commercial treaty between the United States and The Netherlands also gave Shell access to oil reserves in Federal offshore waters, which were largely prohibited to companies from foreign countries not offering reciprocal access to American companies.

Political and legal conditions in the United States significantly shaped the way the Group managed its interest in Shell Oil. The 30–35 per cent minority ownership of Shell Oil by US citizens no doubt substantiated Shell Oil's claims of American 'citizenship', but it also generated a 'complete phobia' on the part of the Group's managing directors about minority shareholder lawsuits, according to one Royal Dutch/Shell official ('Why Royal/Dutch Shell' 1984: 100). As Bamberg describes in Chapter 9, the relationship between a partly-owned US subsidiary and its parent was fraught with legal complications stemming from the rights of minority shareholders and US anti-trust law, which prohibited combinations and conspiracies in 'restraint of trade'. Minority shareholders could sue the majority shareholders on behalf of the company if they felt that a particular transaction or decision was prejudicial to their interests. But if the minority and majority interests were so distinct, could they be prosecuted as separate entities for anti-trust violations? The law was not clear on this question.

Legal questions, therefore, kept Group officials from issuing direct orders to the American affiliate. Shell Oil and the Group took great pains to insure that the pricing of transfers and the sharing of technology between the two were done at arm's length and according to very formalized procedures so that it did not appear that profits were being moved out of the United States or that the US firm was being placed at a competitive disadvantage. To emphasize Shell Oil's distinctiveness, the American company even had its own trademark 'pecten' with a different design from Royal Dutch/Shell's.

Despite Shell Oil's managerial autonomy and special status within the worldwide Group, Royal Dutch/Shell still had a dominant presence on

Shell's board of directors. One could question just how separate and autonomous from the Group the company was. Every top Shell executive worked abroad in some capacity for Group companies on his way up the ranks, vetted by Group leaders. Moreover, there were discernible limits placed on the autonomy of Shell Oil. Most significantly, the majority shareholders discouraged Shell Oil from operating outside the United States, where the US firm might have stepped on the toes of other Group companies. For example, Shell Oil only explored for oil in the United States, and oil and chemical products were only sold to US customers. Although not a formal edict – the minority shareholding interest prevented Royal Dutch from issuing direct commands to Shell Oil management – this geographic constraint was understood.

This constraint also had an interesting and unintended effect. It bred a unique commitment to technology that actually reinforced the proud autonomy of Shell Oil. Confined to the domestic oil province, Shell placed a premium on technological innovation. That was the only way it could compete with its larger rivals in finding and producing more oil. The Group had long been committed to technological research, in the United States and Europe, especially on the Dutch side. But after World War II, Shell Oil's technological orientation took on a life of its own. The company organized one of the most respected exploration and production research laboratories in the industry, which made a name for Shell in geophysics, secondary recovery, and offshore development (Shell Development Company 1986). Shell also developed an organization committed to upgrading petroleum into as many profitable products as possible for the US market. By the late 1960s, Shell Oil's push into premium gasoline and aviation fuel made the company the second largest gasoline marketer in the country (Shell Oil, *Annual Report* 1964). Research into petroleum chemistry established Shell (through the Shell Chemical Corporation) by 1968 as the third-largest petroleum company in the US chemical business and the thirteenth largest overall (ranked by sales) (Backman 1970: 25, 74). Some Shell executives claimed that the company was simply too busy technically with developments in the United States during the postwar period to even think about taking Shell Oil into foreign countries.

Family tension

The ambiguity of divided sovereignty at Shell Oil, however, produced increasing friction in the company's relationship with Royal Dutch. In 1961–2, Shell's determination to break a bitter strike in its three major refineries put Royal Dutch in an uncomfortable position. The strike evoked support from the International Federation of Petroleum Workers, on whom the Group depended to keep communist unions out of its refineries in other countries ('Oil Strikers, 1963; 'OCAW' 1963). The research-sharing agreement between Shell Oil and the Group was revised

several times, requiring the Group to pay more for access to Shell Oil's research and allowing Shell to keep some of its proprietary developments to itself. Because Royal Dutch/Shell participated in joint ventures abroad with oil companies who were competitors of Shell Oil in the United States, Shell had a legal obligation to keep strategic technologies from reaching other oil companies through their associations with the Group. At the same time, Shell Oil's push into the new technological frontiers of exploration and production diverged from the belief of some Group managers that trading and buying crude oil was more profitable than searching for new reserves. In 1969–70, the movement of Shell's head office from New York City to Houston, the US oil capital, literally and symbolically increased the company's distance from the Group. And as oil shortages loomed in the late 1960s, minority shareholders pressed Shell Oil to engage in overseas exploration and production.

In June 1969, on behalf of Shell Oil, stockholder Robert Halpern and other plaintiffs entered in the Supreme Court of New York and the Court of Chancery in Delaware parallel shareholder derivative actions against the Royal Dutch/Shell shareholders in Shell Oil. The Halpern plaintiffs alleged that between 1959 and 1969 the Group 'violated its fiduciary duties' in transactions with Shell Oil by requiring the American affiliate to purchase crude oil and other hydrocarbons amounting to 200,000 to 300,000 barrels/day from Group companies at prices substantially exceeding those prevailing in the free market (*Halpern v. Barran* 1970; *Halpern v. Barran* 1973; Shell Oil Company, Form 10-K 1977). Beginning in the late 1950s, the international glut of crude oil had produced an increasing disparity between the 'posted' or official price, which was held constant, and the actual market price at which crude was sold, which was dropping. In other words, companies offered bigger and bigger price discounts for oil sold on the spot market, while the posted price could not be lowered, largely for the political reason that it served as the basis for the revenues of the producing countries. That affiliates could be charged higher prices for crude oil than those paid by independent refiners was so widely acknowledged, it gave rise to the expression 'only fools or affiliates pay posted prices'.

The Royal Dutch/Shell defendants denied the allegations and moved to strike the complaint as a sham. The main evidence for the charges cited by the plaintiffs were speeches and articles published between 1962 and 1964 by oil analysts unconnected to the Group. The articles only referred to crude oil transactions, and not natural gas, petroleum products, and other services mentioned in the complaint. In May 1970, the Delaware judge found that the 'articles do not provide good ground for charges of self-dealing, mismanagement and the like during a ten-year period, half of it after the last of the articles was published, in transactions involving many subjects other than crude oil' (*Halpern v. Barran* 1970). Yet the plaintiffs kept the case alive with an amended complaint. A decision by

the Delaware court in November 1973 granted the motion of the defendants to dismiss claims accrued prior to June 1966, on the grounds that such action was barred by the statute of limitations, but ordered further discovery of information for the period January 1966 to June 1969.

This case and two other minority shareholder suits submitted by the same plaintiffs in March 1974 dragged on for another 7 years. The implicit allegation of the Halpern suit was that Royal Dutch/Shell had prevented Shell Oil from operating in more profitable oil producing areas abroad and kept it dependent on Group companies for supplies. Although the Group continued to dispute the charges, the minority shareholder pressure was too strong to ignore. 'This anti-trust action was always a worry to the directors in London and The Hague', recalled Harry Bridges, president of Shell Oil (1971–6). 'Much less of a worry to people in the United States because we realized it was a part of living'. Royal Dutch/Shell finally gave in to this pressure, allowing Shell Oil to explore for oil in selected foreign countries after the OPEC embargo and price shock of 1973–4. In 1980, the Group settled its long-standing US minority shareholder suits out of court by turning over all its producing interests in the West African nation of Cameroon to the Shell Oil subsidiary, Pecten Cameroon. In return, the plaintiffs withdrew all their complaints, ending a bitter chapter in shareholder politics at Shell (Shell Oil Company, Form 10-K 1980).

Shell Oil's limited foreign ventures found only marginal success and never satisfied either side. The company had entered the international oil game much too late, trying to establish overseas positions during a period of international crisis, intense Third World nationalism, and anti-Americanism. Host governments commonly kept large shares of the profits from foreign oil investments, and the only available prospects for Shell Oil tended to be in volatile and corrupt countries. Because of the minority shareholder issue, Shell Oil could not discuss its international business – bidding, concessions, financing, etc. – with the Group. Needless to say, Royal Dutch E&P (Explorational Production) managers resented this arrangement and did not appreciate competition from another member of the Royal Dutch/Shell family.

The buyout[2]

Growing tensions finally came to a head in 1984–5, when the Group engineered a highly controversial buyout of its minority shareholders in Shell Oil and assumed full ownership of the company. Annoyed not only with Shell's new international presence, Group managers had chafed for years at the restrictions on the flows of technology and capital between Royal Dutch and Shell Oil. It was one of the longest-lived rumours in the oil industry: that Royal Dutch/Shell was going to buy up the stock in Shell Oil it did not already own. But for years, the rumours reappeared again and again, and it never happened. Finally, in January 1984, the Group announced it was making a tender offer for the minority stake in the company.

Why did the Group make this offer when it did? The conventional interpretation emphasizes falling oil prices and declining investment opportunities elsewhere. The Group had an estimated $8 billion in cash on hand and, in a glutted world oil market with sinking prices, was looking for some place to put it. The remaining interests were a natural corporate fit, matching Shell Oil's strengths in exploration and production with the Group's strengths downstream. An increased stake in the highly profitable and technologically sophisticated Shell Oil Company was an investment too attractive for the Group to pass up. With the public shareholders out of the way, as Sir Peter Baxendell, chairman of Royal Dutch/Shell pointed out at the time, integrated decision-making could 'take place without inhibitions' ('Why Royal Dutch/Shell is Betting' 1984: 99).

The changing US political and regulatory climate of the mid-1980s, however, must also be taken into consideration a crucial factor in the merger. The deregulation of oil in 1981 lifted protection and increased competition, leading to pressures for consolidations, mergers, and break-ups. The Reagan Administration's emasculation of the Justice Department's anti-trust division and its unwillingness to challenge other big oil mergers (Texaco-Getty, Socal-Gulf, Mobil-Superior) signalled a green light for takeovers, even by foreign companies. 'Royal Dutch would have done this years ago, except for its fear of anti-trust problems', said a former chief of strategic analysis for the Group in 1984. 'This was always a closed continent' for foreign ownership of energy assets. Now, he added, 'you can buy without criticism' ('Royal Dutch is Set' 1984: 32).

Royal Dutch/Shell's purchase of its minority shares was interpreted in some quarters as a hostile takeover. The buyout became a bitterly contested 'family feud', centred around conflicting valuations of Shell Oil's outstanding stock. The Group's initial tender offer for the public shares was $55 per share, significantly higher than the $44 per share at which Shell's stock sold before the offer, but not high enough to match the $80–85 per share estimated value of Shell's crude reserves as determined by a Goldman Sachs study commissioned by Shell's outside directors. Other estimates ranged even higher (Court of Chancery of the state of Delaware 1991). How could the estimates have been so far apart? The Group's share-value estimate, based on an appraisal by Morgan Stanley, was based on a $3.80 a barrel price for Shell's reserves, which is roughly what Texaco had paid for Getty, and Socal for Gulf. But Getty's and Gulf's reserves had been shrinking for years. Meanwhile, during 1978–85, Shell Oil had trailed only Amoco in US reserve replacement and led the industry exploration efficiency (Mack 1986: 128). The varying estimates also reflected disagreement over the net present value of Shell's 'proven'

reserves and the extent of its 'probable' reserves. However, it was difficult to place an accurate market value on something which had only one buyer. No other company or investor was about to come forward as a 'white knight' with a competing bid against Shell Oil's majority shareholder.

The tender offer raised objections from Shell's public shareholders. From their perspective, Royal Dutch was not only buying Shell's reserves but the company's talent for replacing them. At stake was the self-worth of Shell's executives and engineers, and their fierce pride in the independent American operation that they had built up over several decades. The Group sweetened its bid to $58 per share, which only seemed to insult the minority shareholders, many of whom were Shell employees (who owned roughly 9 per cent of all Shell stock). T. Boone Pickens, chairman of Mesa Petroleum and Shell shareholder, probably spoke for most of them when he said: '$58 is a rotten price. I'm getting screwed' (Nulty 1984: 184).

However, it was about the best they were going to get without a long and costly court battle. The Group controlled nearly 70 per cent of Shell Oil's shares, and was prepared to enter into private deals for large blocks of stock to achieve the 90 per cent needed to initiate a short-form merger. Led by the top Shell executives, most shareholders accepted the tender offer. Some held out, however, bringing class action suits against Shell charging unfairness of price, unfair dealings, and inadequate proxy disclosure of relevant information. In early 1985, a settlement was reached providing cash payments to class members of $190 million, allegedly the largest class-action settlement ever at the time (Court of Chancery of the state of Delaware 1991). But the Group still achieved full ownership of Shell Oil at a desirable price. The proud autonomy that had characterized Shell Oil since the 1940s began to dissolve. 'We always felt cheated', said George Costa, who worked in Shell's Martinez refinery in California. He grudgingly sold his 2,600 Shell Oil shares to the parent company, but lost enthusiasm for his job afterward, calling the stock deal 'a stab in the back' ('Shell, A Fallen Champ' 1991).

The buyout, on the other hand, did allow Royal Dutch/Shell to gain internalization advantages from its American interests. At first, these advantages were largely financial and technological. In the late 1980s, the Group increased the dividend it took from the wholly-owned US subsidiary from about $700 million to $750 million a year, in effect pulling money out of Shell Oil to finance developments elsewhere (Norman 1992). Flows of technical and scientific information also proceeded more freely than before; the Group benefited from greater access to Shell Oil's seismic technology in pursuing offshore exploration in other parts of the world, especially West Africa.

Organizational and administrative integration did not immediately follow the buyout. In 1985, Shell Oil's strong-willed president John Bookout negotiated a deal that allowed Shell Oil to conduct its affairs

post-buyout in very much the same manner as before, in accordance with the Group's decentralized corporate structure. Houston still ran the capital budgets and determined staffing and development strategies for Shell in the United States, and Shell Oil continued to report its corporate earnings separately. By the early 1990s, unfortunately for the US company, those reports began to diverge sharply from the Group's. While fortunes of Royal Dutch/Shell soared (due to the weakening dollar and high margins in refining and marketing, where the Group was strongest), those of Shell Oil plummeted. The mid-1980s price collapse and prolonged industry slump seriously undermined the performance of the company, which was committed to expensive technologies (heavy oil production/refining and offshore exploration and production) in a declining oil-producing country. In the early 1990s, Shell was forced to cut its workforce and sell off major upstream and downstream assets.

By the early 1990s, as the globalization of trade and investment intensified, Royal Dutch/Shell leaders recognized the cross-border internalization advantages of integrating Shell Oil more closely into its world-wide operations. Technological and managerial expertise, service and supply arrangements, and procurement and sales, could be more efficiently and profitably organized on a global basis. Although the Group was several years behind British Petroleum in implementing such a change, both enterprises faced the same imperative in the 1990s of reshaping an international organization of national operations into a single international operation. Like BP, Royal Dutch/Shell borrowed American management theories to help rethink its world-wide management structure. It hired American consulting firms such as McKinsey and Coopers & Lybrand, as well as University of Michigan professor Noel Tichy, who had advised Shell Oil on ways to become more decentralized and entrepreneurial in making its cutbacks and reforms of the early 1990s. In January 1996, based on a McKinsey plan, Royal Dutch/Shell reduced its central bureaucracy by 30 per cent and established five committees to run Shell's major businesses (exploration and production; oil products; gas and coal; chemicals; and central staff functions) on a global basis (Guyon 1997).

Despite the reduction in Shell's central bureaucracy, the reorganization actually centralized decision-making. The Group had long operated with a decentralized and internationalized management structure, based on strong, national-level CEOs who reported to regional coordinators and managing directors. In the 1996 reorganization, Group headquarters asserted more direct control over Shell's world-wide businesses. For Shell Oil, this meant the virtual elimination of its long-cherished managerial autonomy. Step by step, first in chemicals, then in services, then in exploration and production, the Group reduced Shell Oil's authority to act on its own. Managers in Houston increasingly found that their immediate superiors resided in Europe. The history of Shell in the United

States has now come full circle. The company is once again a collection of companies or businesses directly managed and coordinated from abroad. American managers are forced to compete with other Group entities for a finite global budget, and returns to US operations do not necessarily stay in the United States. In 1999, Shell Oil stopped publishing its own annual report, symbolizing the death of the old American Shell.

One could argue that this newly reconstituted relationship is the culmination of a long campaign, possibly going back to the 1960s, by Royal Dutch/Shell to gain greater financial and administrative control over its largest subsidiary operation. The gradual but steady decline of the United States as a major oil-producing country, and the globalization of oil and product markets, eroded justification for a nationally organized and autonomously managed Shell Oil Company. Internalization advantages increasingly outweighed the locational advantages in the management of the Group's US interests. Carrying out internalization meant first gaining complete financial control over Shell Oil, thus eliminating legal barriers to integration, and then folding parts of the company into the global structure of the Group. While integration was traumatic for many Shell Oil employees and shareholders, it proceeded within an increasingly permissive political and legal climate in the United States. Maintaining an American minority shareholding interest for political cover and cultural legitimacy was not as imperative as it had been during the nationalistic decades following World Wars I and II. As Wilkins points out in Chapter 2, the 1970s and 1980s witnessed greater public and political acceptance of foreign enterprises in the United States (despite temporary anxieties about rising Japanese investments), and the 1990s were marked by growing acknowledgement of the extent and depth of the internationalization of the American economy.

National and cultural identities are not as hard and fixed in the new global economy as they once were, but they still shape the business environment. Globalization is not a transhistorical, state-less process, but a political and economic system managed and orchestrated by governments. Foreign investors must still consider distinct local and national conditions. As the heart of the global economy, the United States, in particular, cannot be run as a branch office. It is still as important, perhaps increasingly important, for foreign entities to retain 'American' characteristics, to maintain a national profile and be part of the local fabric – not so much for legal and political reasons, as in the past, but to engage customers and 'stakeholders' who inherently trust American enterprises more than foreign ones, or who are uncomfortable with the consequences of globalization. For this reason among others, the Group in 1999 appointed an American, Steve Miller, as president of Shell Oil. To preserve some degree of American identity, Miller has made special efforts to emphasize its history and heritage in the United States. As long as the United States retains its political and economic dominance in the world, and remains the largest consumer of oil and a formidable producer, Shell will have to keep wearing its American face.

Notes

1. This article benefits from interviews with retired Shell Oil personnel, but the views and interpretations expressed in it are solely those of the author and do not reflect those of Shell Oil or Royal Dutch/Shell.
2. The settlement sum gave an additional $2 per share for all members of a subclass of Shell shareholders who had accepted the $58 tender offer, and the same additional $2 per share for members of another subclass consisting of non-tendering stockholders if they waived their right to a court appraisal of their shares in the short-form merger at the $58 per share merger price. In 1991, however, a Delaware chancery court judge ruled that about 1,000 shareholders who rejected the settlement offer and sued for more should be paid $71.20 a share plus interest.

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11 What do affiliate exits tell us about the challenges faced by foreign investors in the United States?

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Introduction

There are many ways to study the challenges foreign investors face when managing in the United States. Business historians can study the archives of a given business firm and document the problems they faced in the US. Another possible strategy is to look at the survival of the US affiliates of foreign investors. If managing in the United States poses major challenges for foreign investors, then their US affiliates should make losses, and should eventually be sold or liquidated. We could collect systematic data on exits of affiliates of a given investing country in a given host country. We could estimate the relative difficulty that investors of a given investing country have in managing in a given target country by the proportion of their affiliates that exit within a given period of time. We would, for example, infer that managing in the United States is more challenging for French firms than managing in Spain, if we observed that their American affiliates have shorter lives than their Spanish affiliates. Similarly, we could infer the influence of cultural distance on the management of foreign affiliates in a given host country by the relative longevity of affiliates in that host country. For example, we could find out by looking at the comparative longevity of British versus French affiliates in the United States whether the greater cultural similarity between the United Kingdom and the United States makes it easier for British than for French firms to tackle the American market. Comparing relative rates of exit would also tell managers in which markets they are likely to experience difficulties. Lastly, one could run regressions attempting to measure the relative impact on exits of a number of variables that are likely to cause management problems. For example, one could test whether the choice of the appropriate mode of entry (joint venture versus wholly-owned affiliate and greenfield versus acquisitions) may alleviate the problems encountered by investors entering culturally distant countries, and how this appropriate mode of entry should vary according to the cultural distance to the target country and perhaps the industry of the investor.