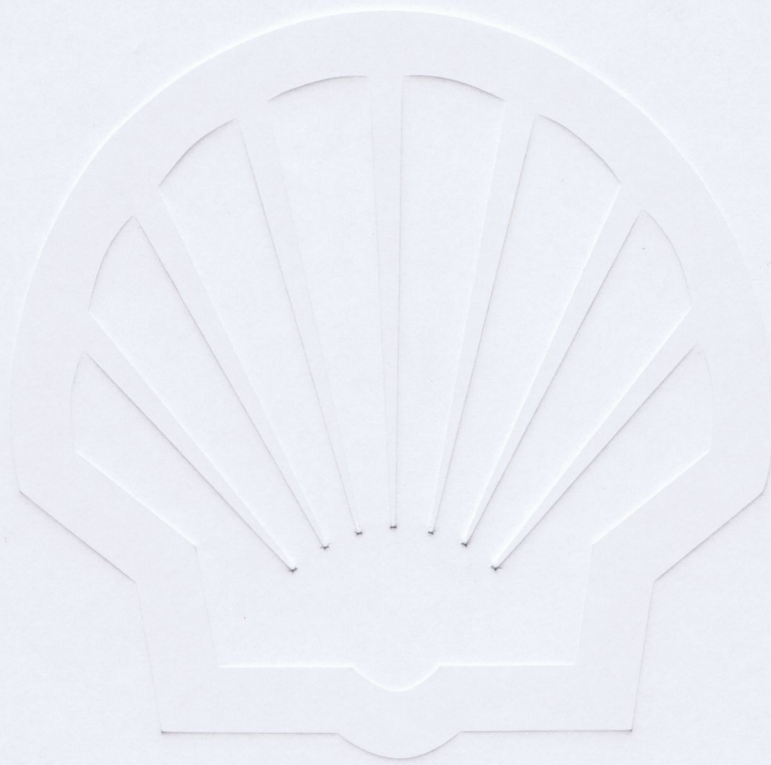


Keeping Competitive in Turbulent Markets, 1973–2007

A History of Royal Dutch Shell, volume 3



Keetie Sluyterman



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A History of Royal Dutch Shell

Keetie Sluyterman

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employee participation, equal employment opportunity, and social performance. The Group's Statement of General Business Principles from 1976, which will be further discussed in chapter 5, recognized the following responsibilities of the Group to employees: 'To ensure that employees have good and safe conditions of work, good remuneration and retirement benefits; to promote the development and best use of human talent and potential and to encourage employee involvement in the planning and direction of their work, recognizing that success depends on the full contribution of all employees, who in turn must be fairly treated.'³

Shell valued its reputation as a good employer. It also approached its staff policy in a systematic way. Its personnel department, Group Personnel, kept in touch with developments in the social sciences and made use of social theories in their own internal reports. These theories were confronted with the routines and practices that had developed in the Group over time.⁴

'Growing your own timber' Typical of Shell's personnel policy in the 1960s and 1970s was its long-term view. Staff were recruited and trained with the idea of keeping them in the organization for the rest of their working lives, as long as they functioned satisfactorily. From today's recruits would come the future senior management. For this reason particular care and attention was given to the selection, assessment, and development of potential managers. Within Shell this policy was termed 'growing your own timber'. Managers were defined as those holding jobs in the 'lettered category', above job group 1. Shell had job categories ranging from 15 to 1 and then four lettered categories ranging from A to D. After that came the 'unclassified category', the highest positions in the Group.⁵ Just as businesses were used to making long-term plans, Shell Personnel developed programmes to follow the long-term requirements for managers: what kind of quality, which nationality and how many managers would the Group need in fifteen years time?⁶

For its management the Group recruited predominantly among university graduates with a focus on chemistry, chemical engineering, mechanical engineering, and furthermore mining engineering and geology. In the 1970s MBA students made their entrance into the Group, but 70-80 per cent of new recruits had technical qualifications, in response to the requirements of the businesses. About 80 per cent were either Dutch or British.⁶ Because of the largely technical background of its recruits, Shell gave special attention to social issues in its management development programmes in order to create 'well-rounded' managers.

To be able to fill future managerial positions, it was important to recruit graduates with 'high potential'. G. A. Wagner, Group managing director, explained in 1970 that industry could no longer

to their own advantage.¹³ Though this report cleared the oil companies of the charges of collusion, the public remained unconvinced in the face of high petrol prices.

High oil prices, however, boosted energy savings and led to a decline in CO₂ emissions much more effectively than the climate policies of the 1990s.¹⁴ The Group encouraged the public to be more careful with energy and achieved considerable energy savings in its own operation. Obviously, the high oil price made investments in energy reduction very rewarding. The accusations of causing high oil prices returned after the second oil shock in 1979. Interestingly, in the European countries the public recognized that the escalation of oil prices stemmed from the OPEC countries and not from the oil majors. In the USA, however, the public image of the oil companies was markedly worse than in Europe. Here the oil companies were blamed for the gasoline shortages and rising oil prices.¹⁵ The industry itself felt constricted in its function by the many rules and regulations. Shell Oil complained in its Annual Report of 1978 about the major obstacles industry had to face in the US: 'We as a nation have produced, through the political process, legislation and regulations on behalf of consumer protection, worker safety, clean air, clean water, pristine wilderness, better mileage, small businesses, endangered species of plants and animals, and so on. While well-meaning efforts to create and manage the optimum solution for each of these issues through federal, state and local regulations were underway, many people lost sight of the larger picture. The results have been overregulation, which threatens the health of the total society and its economic processes and is a particular concern to the energy industry.'¹⁶

The critical inspection of the oil industry did not stop at the national level.

Statement of General Business Principles

The combination of general scrutiny of multinational companies and more particular scrutiny of the oil industry led to quests for information by international bodies. The UN Commission on Transnational Corporations set up an Information and Research Centre on transnational companies. Shell's Trade Relations report from 1975 mentioned that 'transparency' had become a key word to describe the general requirements of governments and stated that '.. in principle, subject to appropriate safeguards and definition of objectives, we are in support of better information as a means of dispelling mythology'.¹⁷ At inter-governmental level the Organization for Economic Cooperation and Development (OECD) prepared guidelines on multinational companies. Shell welcomed these guidelines, published in 1976, because they formed a first step towards internationally agreed standards of business behaviour. They were seen 'as representing generally realistic recommendations'.¹⁸

The Shell Group also developed its own internal guidelines. Formulating a general statement of business principles was not easy for a Group which valued the managerial autonomy of its operating companies. Indeed the business principles of 1976 were seen as guidelines. Certain practices were allowed to vary between countries. However, there could be no modification of standards on such fundamentals as attitudes to bribery and the integrity of accounting records. In presenting the guidelines to the Shell companies, the Regional Coordinators reminded the managers of the operating companies that frequently Shell employees themselves were among the critics of the Group, and this should be considered as an asset, because the attitudes and values of Shell staff were often a mirror of those of the societies in which Shell companies worked.¹⁹ The guidelines outlined in the Statement of



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In 1985 PDO set up the Marmul Desert Agriculture project as a gift from the company to Oman. Approximately 110 hectare of desert near Marmul was irrigated with ground water to produce hay for the local community. It also tested the potential to grow other crops.

General Business Principles were not new, but they were put together for the first time in 1976.

The Statement did not debate issues, but clearly responded to criticisms raised by certain groups in society. To those who accused companies of having the maximization of profits as their only goal, the Statement opened by making clear the wide-ranging vision of the Group: 'The objectives of the Royal Dutch Shell Group of Companies are to engage efficiently, responsibly and profitably over the long term in the oil, gas, chemicals, coal, metals, and related businesses, and to play an active role in the search for and development of other sources of energy.' In addition to the duty of protecting shareholders' investment and providing an acceptable return, three further interdependent responsibilities were recognized, those to employees, to customers, and to society. Profitability was seen as a condition of carrying out these responsibilities and of staying in business. To those critics who wanted to give the state a more prominent role, Shell upheld its belief in the market economy. Though Shell companies worked in a wide variety of environments over the nature of which they had no power, the Group stated that over the long-term the community would be served most efficiently in a market economy. Referring to the rising voice of people who wanted Shell to leave South Africa, the Group stated that Shell companies should endeavour always to act commercially, operating within existing national laws in a socially responsible manner and to avoid involvement in politics. The Statement underlined this point further by explaining that: 'Decisions, and particularly investment decisions, should be based on commercial criteria and not aim at influencing political causes or the pattern of particular societies. The latter are the concern of individual citizens and governments and not companies.'

Considering grants and general community projects, the Statement once again argued that conducting the business efficiently was the main responsibility of Shell. 'In addition the need is recognized to take a constructive interest in social matters not necessarily related to the business.' Shell companies had to adhere to strict principles relating to the legality of payments made by them and to the integrity of all accounting records. The offer, payment, or taking of bribes were unacceptable practices. The Statement concluded with the recognition that the activities in which Shell companies were engaged had their impact on national economies and individuals. For that reason, full relevant information about these activities was given to legitimately interested parties, both national and international, subject to any overriding consideration of confidentiality proper to the protection of the business and the interest of third parties.²⁰

Other oil companies came out with comparable policy statements. For instance Exxon gave a booklet to its employees dealing with ethics and responsible behaviour. Interestingly, the Exxon document focused more on the individual employee rather than the operating companies. Starting with the policy on business ethics, the office of the chairman wrote: 'The policy of this Corporation, as stated by the Board of Directors years ago and reaffirmed by the Board at its September 1975 meeting, is one of strict observance of all laws applicable to its business.' Staff were addressed personally in the following manner: 'An overly-ambitious employee might have the mistaken idea that we do not care how results are obtained, as long as he gets results. He might think it best not to tell higher management all that he is doing, not to record all transactions accurately in his books and records, and to deceive the Corporation's internal and external auditors. He would be wrong on all counts. We do care how we get results.' Despite

At the request of Sheikh Qaboos Bin Said, the Sultan of Oman, Shell started the ORYX project to reintroduce the Oryx to one of its former habitats in central Oman in 1976.

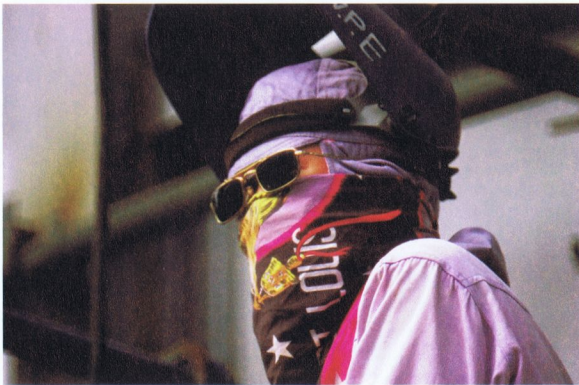


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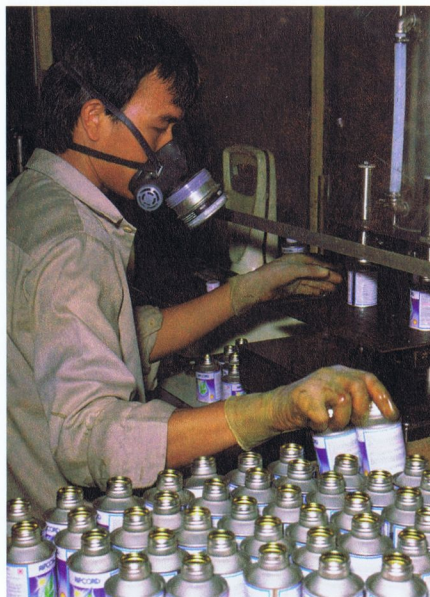


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Safety sign for construction workers building the Shell Tsukuba laboratory in Japan in 1991.

Right: Warning for a newcomer in the refinery in the 1970s.

using the male form of address in this document, the company advocated a policy on equal opportunity for individuals, 'regardless of their race, color, sex, religion, national origin, age, physical or mental handicap, and veteran's status'.²¹ Incidentally, this last clause was absent in the Shell statement. Instead, the Shell statement mentioned the responsibility of the Group 'to promote the development and best use of human talent and potential and to encourage employee involvement in the planning and direction of their work'. This was a response to the requests in some European countries for employee consultation and democracy.

The Statement of General Business Principles was initially intended for internal discipline, though the document could be made available to interested parties who might ask for it explicitly. The business principles have been freely available to the public since 1981. In addition to the business principles, Shell developed a set of internal guidelines on safety, occupational health, and environmental conservation matters. Safety performance was monitored regularly. All accidents were evaluated with lessons included in the Shell companies' code of practice. The prevention of accidents constituted a critical factor in the design and operation of Shell installations. To reduce accidents through human error, Shell

場内保護具完全着用

大声で確認!

あなたほ?

・安全帽ヨシ!

・アゴ紐ヨシ!

・安全帯ヨシ!

・服装ヨシ!

・足元ヨシ!



[11]

Over the years safety measures in Shell operations became more stringent, as can be judged from more elaborate clothing and other ways of covering the body to shield it from dangerous impacts or substances. Managers had the responsibility to reduce the number of accidents among their employees. Through signs employees were told to take safety seriously, but Shell companies also organized regular training programmes to make employees more safety-conscious.

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A NEWCOMER IN OUR REFINERY



1-1970-A4-81.P.M.-MFOOM

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introduced training programmes to increase the safety consciousness of staff.²²

In 1976 Shell's Department of Trade Relations commented on the fact that the general public as well as younger members of Shell companies expected large organizations to be accountable to the community not only in financial terms but also in 'social performance'. The area of corporate social responsibility included the attitude to environmental conservation, the treatment of employees, service to customers, grants and other forms of community involvement. Many of the Shell companies had social programmes, depending on local circumstances and customs, but these activities were not centrally coordinated. Within the Group Shell Oil already had considerable experience in formulating specific objectives to achieve improvement in the sphere of corporate social contribution.²³ From 1978 onwards the Shell Group began to report on its contribution to society in its annual reports. The social programmes had a strong focus on educational activities. For instance, operating companies in Australia, Brunei, Japan, Malaysia, and Nigeria enabled students to follow education in the UK. The Pilipinas Shell Foundation supported projects to give young people from poorer parts of the country practical training to



FORESTRY SAFETY RECORD

ACCIDENT FREE WORKING DAYS

ACCIDENT FREE
DAYS WORKED

69

TARGET

90 DAYS

DATE OF LAST
ACCIDENT

30.11.87



BENZ
VIPHER



SAFETY CBR PERFORMANCE

1991

HOURS WORKED AT END OF

918708

LOST TIME INJURY FREQUENCY

APRIL

2.1

DAYS SINCE LAST ACCIDENT

24

To encourage safety-consciousness, billboards kept track of accidents and promoted accident-free hours and days. Clockwise from bottom left: inset, the April 1991 safety performance at the Ghanaian CBR gold mine (Canadian Bogusu Resources, which Billiton acquired); main picture,

working towards a forestry safety target in 1988; a record achieved at Geelong, Australia in 1969; and the Dutch inland waterways fleet in 1978. Only 3 accidents so far, and 175 accident-free days of work.

increase their opportunities in finding work. In developing countries Shell introduced courses aimed at improving farming methods, including the accurate and safe use of agrochemicals and small farm business management. Since 1970 Shell UK gave donations to the Intermediate Technology Development Group, which specialized in designing agricultural machinery to be used and produced in developing countries. Shell Brasil supported a forest ecological study in Brazil. But not all projects were focused on developing countries. In 1982 Shell UK started the 'LiveWIRE' scheme to help young people set up a business on their own. Deutsche Shell had a series of activities around children and traffic, including a project to teach children how to behave in traffic, and support for scientific studies of accident proneness among young children. Shell's social activities included the sponsoring of sports and arts, as for instance the annual fun mass jog in Singapore. Shell Canada sponsored an exhibition of Inuit and other native Canadian artefacts to mark the 1988 Winter Olympics. These sports and cultural activities, however, had a somewhat lower priority than education and the environment.²⁴ Compared to the sums involved in the real business activities the social funding was no more than the icing on the cake, though it was considered progressive at that time.

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Shell followed the approach of the 'accident pyramid', arguing that one fatal accident was the tip of the iceberg. For instance, 100,000 unsafe practices could lead to 10,000 near misses, to 1,000 non-life threatening incidents, to 100 life threatening incidents, and then

one fatal accident. The prevention of accidents therefore had to start with examining the daily routines. In order to reduce the number of accidents Shell considered it equally important to include safety measures in the design stage for new equipment and facilities.

notion that if Shell withdrew from South Africa all this 'support' for the regime would evaporate. 'But the reality would be that only the Shell emblem would disappear. The business as such would carry on as usual.' Nonetheless, he expected that leaving would be a blow to the 2,500 employees of Shell South Africa, and that the company itself was convinced that a peaceful solution required changes from within. 'South Africans, white and black, will have to learn together to create a society which respects the human dignity of all', he argued. 'It would be unwise at this particular moment to reject and isolate the very companies that have a personnel policy giving living proof of how things can and should be done.' The interviewer wanted to know what would happen if the international pressure on Shell should increase. Van Wachem replied: 'We would then ultimately be faced with having to make a very unhappy choice: between our responsibilities with regard to Shell South Africa and its employees, on the one hand, and the other Group companies and their employees on the other hand. But I hope and believe that things will not get that far; I am confident that the "ordinary" man in the street, wherever he may be, our customer, will not allow himself to be taken for a ride by a completely misplaced boycott campaign.'⁵⁶

In their discussions with the anti-apartheid movement, the Group faced one serious dilemma. On the one hand, top management wished to send out a strong message that it was against apartheid and the apartheid regime, but on the other hand it also wanted to stick to the Group philosophy of not interfering in the political system of any country. As McFadzean pointed out: 'it could be very dangerous for the future of the Group to depart from this philosophy'.⁵⁷ As a compromise, the managing director of Shell South Africa, John Wilson, became more active and outspoken in the South African business community to promote

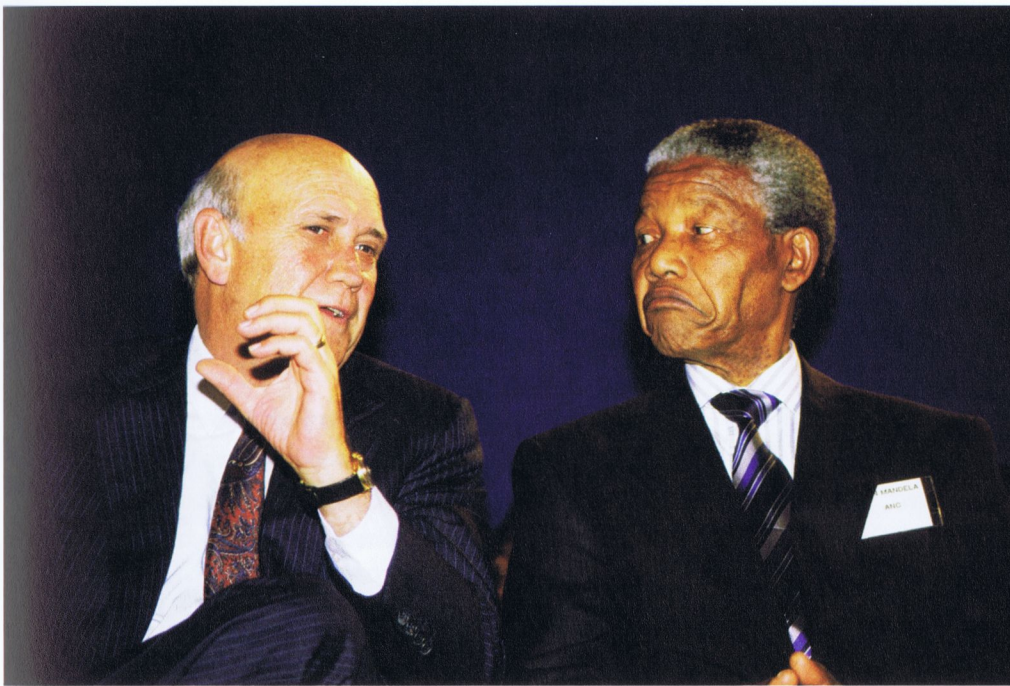


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changes from within, because the South African business community had the best chance of influencing the policies of the South African government. The company added to the Shell Statement of General Business Principles the clause that 'Shell South Africa has resolved to promote and actively contribute to the elimination of racial intolerance, unjust laws and unacceptable human rights practices.'⁵⁸

Shell faced another more general problem: its structure was decentralized, but suddenly operating companies in a wide range of countries were getting difficult questions to answer on the activities of another Shell operating company, in this case Shell South Africa. It was not the custom in Shell for one operating company to give information about another operating company within the Group. The question arose in the Conference whether it would be opportune to adopt a stronger central management of certain public affairs issues. Van Wachem argued that the decentralized organization had served the Group very well and that it was difficult to make exceptions for particular activities.⁵⁹

During the second half of the 1980s actions in the USA and Europe increased. Action groups enlisted the support of municipalities, which excluded companies working in South Africa from invitations to tender. This pressure instrument was first used in the USA and then introduced in Europe, in particular in Britain, the Netherlands, and the Scandinavian countries. The Shell lawyers



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pressure by the companies that remained had been important too, if only to demonstrate that companies could function effectively without a system of apartheid within their own operations. After the regime change, their programmes of corporate social responsibility, shaped during the years of international pressure, set an example to other foreign companies re-entering the country.

Two observations to conclude: first, the American campaign for consumers to boycott Shell products was never taken up by consumers in South Africa itself. Apparently the people of South Africa had another perception of Shell than those of the United States. Second, Shell South Africa succeeded in building up a good relationship with the ANC. When the ANC bought Shell House for its headquarters, it kept the name in place. During a visit to South Africa in 1992, Van Wachem privately met and discussed matters with De Klerk and the following day with Mandela. Both men received him very amicably, and he thoroughly enjoyed those meetings. In December 1993, though no longer chairman of the Group, he was invited to attend a ceremony in Oslo, Norway, during which Mandela and De Klerk jointly received the Nobel Peace Prize.⁷⁰

Why did Shell persevere in its policy to stay in South Africa? After all, it was not an oil-producing country nor were the coal operations very profitable. For both parties important principles were at stake. The anti-apartheid movement strove to end an evil system of apartheid, institutional racism, and white minority rule. The Shell Group wanted to protect its right to have operations in many countries around the globe, in which it sought to do business as a responsible citizen. Desmond Watkins, Regional Coordinator Western Hemisphere and Africa, wrote in 1988 about this issue: 'In my own business career I have seen calls for business not to carry on trade with, amongst others, Israel, Cuba, Chile, Nicaragua, the UK, USSR, Holland, China, Libya, Iran, Vietnam, and Taiwan. International companies are called on to cease trade or supplies to dictatorships, communist countries, one-party states, offenders against human rights, countries which kill whales or ban trade unions or whatever any individual group feels passionate about'.⁷¹ In the confrontation with the anti-apartheid movement, the vision of Shell shifted from the principle that it was enough to observe the national law in each country in which it operated, to the view that Shell companies should be able to follow Shell's own Statement of General Business Principles in their own operations.



Management is involved in negotiating and balancing demands.

The Shell magazine *Interchange* underlined in 1992 how managers had to strike a very fine balance between the many different demands posed by the various stakeholders of the company.

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essential part of showing its commitment consisted in developing systems to manage, measure, and verify progress and performance. Now it was time to fix it.

To be better prepared for society's changing expectations in the future Shell enhanced its dialogue with external stakeholders. Mark Moody-Stuart, Group managing director, stated in 1996 that the public at large now demanded to be convinced that a company practised what it preached. This had clear implications for how Shell companies put their messages across: 'a fine line had to be steered between a willingness to listen to others and maintaining the courage of one's convictions'.¹⁴³ The dialogue with external stakeholders implied that not only the public in general but also specific groups within society had to be targeted. Renaming the function 'Public Affairs' as 'External Affairs' reflected this new approach to stakeholder engagement, which included discussions which were not necessarily in the public eye.¹⁴⁴ The exchanges with external stakeholders took place on Group level as well as local level. For instance, Govert Boeles, director of personnel and social affairs of Shell Pernis, participated in a dialogue with the Dutch

Council of Churches. As a Christian himself he found it refreshing to discover that the churches were prepared to engage in a debate with Shell employees, while in the past as a Shell employee he had felt condemned out of hand. Leen Koster, manager of environmental affairs at Shell Nederland, learned from the discussion about sustainability that people in Shell were inclined to put their trust in new technology, while churches wanted to influence the behaviour of people. The discussions convinced Jan Gruiters, adjunct secretary of Pax Christi, that Shell had undergone a real change in its thinking that went beyond just public relations.¹⁴⁵ In some twenty-five countries Shell engaged in discussion with opinion leaders and organizations such as Amnesty International, Pax Christi, and Human Rights Watch. Tim van Kooten, issue manager of Shell Nederland, organized these encounters not so much to convince the other parties as to find a way of sharing dilemmas.¹⁴⁶ The discussions contributed to the revision of Shell's Statement of General Business Principles.

First formulated in 1976, the Statement had been revised regularly in response to particular issues at the time. For instance,

in 1984 it was no longer considered necessary to defend the role of profit and the market economy.¹⁴⁷ The major additions in 1997 included clear references to human rights and sustainable development. The reformulated business principles underlined the responsibility of Shell companies 'to respect the human rights of their employees'. The new statement extended the responsibilities of Shell companies towards society. As in the past, Shell companies were expected to conduct business as responsible corporate members of society and to observe the laws of the countries in which they operated. The new clause asked Shell companies 'to express support for human rights in line with the legitimate role of business and to give proper regard to health, safety and the environment consistent with their commitment to contribute to sustainable development'. The addition 'human rights in line with the legitimate role of business' was chosen with care, because the term 'human rights' covered so many different aspects, ranging from the right to life and liberty to living conditions and the quality of life. Shell companies could not possibly be expected to deal with all those aspects.¹⁴⁸

Earlier statements had included reference to health, safety, and the conservation of the environment. The new statement referred several times to the wish to contribute to 'sustainable development'. In the conflict with the Ogonis, the refusal of Shell to put pressure on the Nigerian government had been hotly contested by the pressure groups. In the reformulated business principles Shell companies saw their responsibilities extended. Shell companies were, of course, still expected to act within the laws of the countries in which they operated in pursuit of their legitimate commercial objectives, and Shell companies were not supposed to make payments to political parties, organizations or their representatives or take any part in party politics. When dealing

with governments, however, Shell companies were given the right and the responsibility to make their position known on any matter which affected themselves, their employees, their customers, or their shareholders or even the community where they had a contribution to make.¹⁴⁹

Together with a revision of the business principles Shell developed a system of assurances, an internal accounting system to make sure all Shell companies did indeed comply with the business principles. When the business principles were first launched in 1976 local variations according to local customs had been considered acceptable. This was no longer the case in 1997. The Statement of General Business Principles became mandatory for all Shell companies, including Shell Oil in the US. Shell Canada accepted the same principles, and joint-venture partners were also expected to subscribe to them. As the world not only expected words but also proof, an internal and external system of assurances was developed. The external way of showing Shell's good intentions consisted of the publication of the externally audited Shell Health, Safety and Environment report in 1997, followed by the Shell Report for 1997, published in 1998 under the telling title 'Profits and Principles: Does there have to be a choice?' The report was drafted by a small Shell team assisted by consultants, including Arthur D. Little and the environmentalist John Elkington of SustainAbility. Not surprisingly, the Shell Report 1999 borrowed from Elkington the expression 'people, planet & profits' to describe the 'triple bottom line' for responsible companies. The inclusion of external assessments was vital to the credibility of the reports, but here Shell had to explore new territory. The area of environmental auditing was in its infancy, and 'social auditing' was even less advanced. While measuring performance was essential, clear yardsticks had yet to be developed. Also, social criteria were harder

to apply and measure than financial ones. Therefore, Shell commissioned Arthur D. Little to propose a social responsibility management system.¹⁵⁰ Though Shell's (social) reports met with considerable approval, some of the environmental critics dismissed the effort as 'greenwash', and some human rights activists remained unimpressed.¹⁵¹

Following the custom in the USA and UK, Shell set up a Social Responsibility Committee as a new committee of the boards of the parent companies to review the practices, policies, and procedures of the organization with regard to issues of public concern.¹⁵² This committee, chaired by Lord Oxburgh, oversaw the process of preparing the Shell (social) reports. For instance in 2001 it advised that the report should address explicitly the integration of the different aspects of sustainable development and the necessary trade-off that sometimes had to be made among environmental,

social, and economic concerns.¹⁵³ Wind energy offered a striking example of the difficulty of getting it right. Hailed as the perfect renewable energy in the 1980s, wind energy came under attack in the early twenty-first century because wind farms on land changed the landscape and those at sea risked damaging birds.

The Social Responsibility Committee also supported the creation of the Shell Foundation, the Group's flagship social investment scheme. In itself social investment was not new to Shell. Over the years Shell operating companies had been involved with local projects according to local needs. For instance in the early 1990s Group companies' expenditure on charitable grants or donations and social sponsorship amounted to some \$40 million per year, representing about 0.6 per cent of the Group's pre-tax profit or 0.9 per cent of post-tax profit. On average 45 per cent of total grants expenditure went to education, and 15 per cent each to



Shell brochures from 1998 with projects to help people build a better world.



A Shell-sponsored elementary school in the Philippines.

three categories: culture and community, environment, and medical. The remaining 5 per cent were used to ‘encourage young people to realize their full potential’.¹⁵⁴ The local companies continued to have their own social investment. The central Shell Foundation made the contribution of the Group more visible and more independent from daily operations. To start with the Foundation received an endowment of \$250 million, with additional funding in the next ten years in order to support an annual programme of around \$25 million.¹⁵⁵ The Shell Foundation had two main programmes: Sustainable Energy and Sustainable Communities. Initially the long-running LiveWIRE programme counted as a separate third programme. This programme to help young people set up their own business originated in the UK in the 1970s and had been taken up by many other countries as far as it suited local circumstances. Typical of the Foundation’s approach was the collaboration with local partners. For instance, the ‘Micro-enterprise for women at risk in Romania/Slovakia’ was run by the Slovakian NGO Integra. Its main objective was to enable women to break out of the circle of unemployment, dependency, and poverty by helping them set up their own small business. The programme Embarq formed an interesting initiative to combine the two aims of sustainability in energy and community. Embarq, in partnership with the World Resources Institute, aimed to find solutions for cities in developing countries struggling with air pollution, traffic congestion, and lack of access to clean and convenient transport. Both examples illustrate the ambition of the Shell Foundation: ‘Helping society build a sustainable future’.



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In its social programmes Shell developed two key areas: sustainable energy and sustainable communities. Providing sustainable energy to local communities served both goals, as seen above at the demonstration of rural solar energy in Hatarekokuwa, Sri Lanka.

Below: In 1998 Shell and Eskom, South Africa’s national electricity supplier, started a joint venture project in South Africa to set up solar panels for delivering electricity to circa 50,000 rural villages.

Conclusion The last quarter of the twentieth century saw the rise of non-governmental organizations (NGOs) putting pressure on companies to pay attention to specific issues they particularly cared about, and a public increasingly willing to respond as consumer to allegations of company wrongdoings. At the same time, communications became more global and much faster, enabling the media to feed the public with daily events from all over the world. In the 1970s the left-wing public in the western world was critical of companies, in particular multinationals, but still had faith in governments and international institutions to act on behalf of the general cause and keep companies in check. In the 1980s this confidence in the role of governments disappeared. Only the NGOs still seemed to have the trust of the public. The attitude of the public towards companies became contradictory. On the one hand, large parts of the public remained suspicious of big companies, on the other they expected them to find solutions for problems governments had failed to solve. Shell, as a very visible and large organization, fully experienced the pressure of these contradictory demands.

Shell companies were well aware of the importance of a good reputation for their ability to operate. They realized that ultimately a good reputation depended on good behaviour. In large international enterprises such as Shell it was inevitable that sometimes managers did not act appropriately. Therefore Shell formulated business principles to set out the standards it expected of its staff and devised internal systems to deal with those who did not comply with the rules. The public also expected higher standards from companies and governments than in the past. The handling of the boycott of Rhodesia, though undeniably complicated by different sets of national legislation in Britain and South Africa, did not show the oil companies or the British government in a very positive light.

More difficult to deal with, however, were issues where Shell companies and the public had different views or different

perceptions. This was the case with Shell's presence in South Africa. While critics wanted Shell to leave the country to help undermine the apartheid regime, Shell remained convinced of the importance of political neutrality, though eventually it openly condemned the apartheid system. In the 1970s Shell expected that it could sway public opinion by providing extensive information and explaining the trade-offs that had to be made when dealing with complex issues. From the long-running dispute about South Africa, Shell learned that it also had to show emotions, making clear that it cared about the people it worked with and shared concerns about the environment. Understanding the importance of being more in tune with public expectations, however, was not the same as being able to forestall new issues coming up and making the headlines. In the dispute about the sinking of the Brent Spar, Shell experienced how action by professional NGOs combined with spectacular media coverage unleashed so much public emotion that it could upset its own careful planning founded on sound scientific evidence. It was attacked over its environmental performance in its operation and over the use of violence against local people by the Nigerian government. Many critics simply did not accept Shell's point of view that it could not interfere with the way the government ran the country or with the way the legal system functioned.

In response to rising criticism Shell decided on a very public overhaul of its reputation management in 1996. NGOs were invited to enter into a dialogue with Shell and find solutions for complex issues. In the process Shell accepted a greater responsibility for human rights issues and sustainable development. In their interaction between company and public both the pressure groups and Shell became increasingly professional and sophisticated. As a result staggering amounts of information, some of it externally certified, became available about the company, amounts that would have appalled Henri Deterding and Marcus Samuel.¹⁵⁸ The public, however, remained sceptical.

dual nationality also enabled the Group to move subsidiaries from one parent company to another for fiscal or political expedience.

If in creating the dual structure Deterding had showed himself to be sensitive to the importance of politics and national power, his astuteness began to fail him after the First World War. He could simply not come to terms with the political changes wrought by the war, notably the rising importance of economic nationalism which the Group first encountered when the Soviet Union nationalized its oil industry after the revolution there. As a result, he became emotionally charged and inflexible in his dealing with governments. Meanwhile other Group managing directors developed a more practical attitude towards national aspirations. Kessler, for instance, argued that it was important to look after the company's interest, but at the same time the business should also benefit the host country. This pragmatic approach was also inspired by the experience that Shell's power to force issues was closely circumscribed by the fact that governments could always find rival oil companies willing to take over, even if Shell cooperated with Standard Jersey in trying to impose a boycott. This led managers to adopt a policy of tenacious flexibility: standing firm on principles while always keeping negotiations open in the hope of finding a solution. If the policy failed in the face of governments determined to take control, such as the Hitler government, then at least it succeeded in the Group obtaining a better price for its assets, as happened following the nationalization of oil assets in Mexico in 1938.

Shell showed a similar open-minded and flexible attitude towards the rise of OPEC during the 1960s and 1970s, preferring an open dialogue over confrontation. It probably could afford to be more flexible than the other oil majors, because it had a better regional spread of oil production. Moreover, the Group's emphasis

on operational decentralization and a delegation of authority to the lowest level practicable, which was enhanced after 1973, enabled the company to adjust quickly to the ambitions of governments in oil producing countries. These two tenets stimulated local managers to align Shell's interest with that of their host countries, enabling them to deploy a great political sensitivity which in turn made their operating companies into attractive partners for governments.

Such an identification with local national interests, however, sometimes landed the Group in difficulties. This happened, for instance, when Shell companies in Mozambique and South Africa used their subjection to the laws of their host country to break the oil boycott against Rhodesia. Moreover, the evolution of international relations began to impose limits on the leeway of local operating companies. With the rise of non-governmental organizations in the US and Europe, events in one country easily became a focus of attention in another, the media providing ever faster coverage from around the world. During the 1970s and 1980s the Group came under attack over political issues, in particular its presence in South Africa under the apartheid regime. Shell responded by taking a close look at its business aims and principles, first drafted in 1962 and restated in 1976 as a formal document entitled 'Statement of Business Principles'. Initially intended as guidelines for the local operating companies, these principles developed into a set of criteria to judge whether the Group could continue working in a certain country. The Group felt that, as long as an operating company could follow the Shell business principles in its own operations, it had a right to stay in that country. For that reason Shell stayed in South Africa, despite having to face, for the first time, a – not very effective – consumer boycott in the US.

NGOs also challenged the Group on its environmental policies, and here the company could get caught in the crossfire of different national viewpoints. In 1995, for instance, when Greenpeace attacked Shell over the announced sinking of the Brent Spar, Britain agreed with the sinking, but some continental European countries were against it. NGOs also accused the Group of having double standards in protecting the environment. Following national regulations was not considered enough; the Group ought to have global standards, and very much higher ones. Other NGOs supported inhabitants of the Niger delta in their protests against Shell's oil production there, and against the fact that the population suffered from the negative effects of the oil production on their environment without benefiting from the profits. The continuing serious problems in the Niger delta had a very negative impact on the Group's reputation. Under the influence of the NGOs, Shell reformulated its business principles, in 1997 for the first time including human rights.

At the beginning of the twenty-first century rising oil prices and mounting concern for energy safety combined in a tougher attitude of national governments towards the oil industry in their countries, which led to a number of nationalizations. Shell responded with the same practical and flexible approach it had used so effectively in the past.

Running a cross-border business The Group's dual nationality had political and fiscal advantages, but it also posed formidable managerial challenges. Initially, Shell's organization was held together by a fairly small team of top managers with interlocking directorships on the boards of parent companies, holding companies, and main operating companies. Around them a wider group of internationally active managers developed, running operating companies or concentrating on specific topics of vital interest to the business, such as geology in the case of Erb, or technology in the case of Pyzel. These managers moved from one subsidiary to the next, creating a close network within the Group. This simple hierarchical model worked well enough in the globalized world before 1914, with its highly integrated markets. However, the structure came under serious strain from the Group's rapid expansion and then the economic disintegration caused by the First World War. Restrictive legislation, rising taxation, tariff barriers, protectionism, and the appearance of national oil companies all worked to disrupt the Group's global strategy and challenge the organization built to execute it. Asiatic Petroleum, for instance, now had to form separate marketing subsidiaries for the countries in which it operated, creating an additional layer in the organization. Moreover, Asiatic needed managers versed in local circumstances to run them. The proliferation of operating companies altered the managerial balance within the Group, central offices finding it increasingly difficult to retain their grip. The growing number of agreements and joint ventures with other oil companies which followed in the wake of Achnacarry added further complexity.

This fundamental problem should have been addressed much earlier than it was. During the 1920s, Deterding resisted changes, wanting to keep close control over the whole enterprise.