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The flow of people: globalisation and the organisation of the international workforce in multinationals companies

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This paper will analyse the way multinationals used their expatriates to improve their competitiveness during the second half of the 20th century. As expatriates are expensive employees for a company, they must have a clear benefit to that company in order to survive as institution. Nevertheless, different companies may have different views on the role and benefits of expatriates. This use will depend on the home country of the multinational, the countries in which the multinational works, the sector in which the company operates, and in the broader social and economic context.

For this paper we make two comparisons. The first comparison is between companies from two different sectors, one being the Anglo-Dutch company Royal Dutch Shell, working in the oil industry, and the other the Dutch bank ABN AMRO working in the service sector. We have analysed the organisation of the expatriate communities and the interaction between local and international workforce. The second comparison is a comparison over time, and will reflect in particular on the influence of globalisation on the organisation of the international workforce in multinational companies. This paper forms part of a broader discussion about the role of multinational companies in the creation of the global economy and their possible influence on changing national business systems. The changing structure of the multinational company is a response to the globalisation of markets and at the same time underpins that process of globalisation by global institution building.

Globalisation and changing business systems

At the end of the 20th century, many people in Europe became concerned about the perceived loss of social coherence and the harsher economic climate. This concern was formulated in terms of increasing American influence on their national business systems, following the discussions about contrast between the more inclusive Rhineland model of capitalism and the liberal Anglo-Saxon model.[1] Academics joined the debate by trying to understand the differences between national business systems. Richard Whitley, who argues that national business systems are strong and not likely to converge, defines business systems as particular patterns of organising economic activities successfully in a market economy. These patterns result from and are effective within particular institutional environments.[2] An important contribution to this debate is the 'varieties of capitalism' approach of Hall and Soskice, in which they contrast two extremes, the liberal market economies as portrayed by the US, and the coordinated market economies, of which Germany is the ideal type. They argue that there is a certain coherence and logic between the various characteristics of the system, and that companies in a certain business system will chose strategies that follow the logic of the system and they will therefore strengthen the system by their choice of strategies.[3] However, changes in the system are still possible, only under the influence of strong external shocks in the world economy caused by changes in technology, products and tastes.[4] The rise of internet can be seen as one of those major technological changes.

While agreeing that changes are possible by external shocks, they don't explain the origin of those shocks or the transmission process. According to Mark Casson, in his study *Economics of International Business*, the entrepreneurs and their companies create the necessary flexibility in the international business system, and are therefore responsible for changes. How the changes materialise will depend on social and economic factors. Entrepreneurs are able to change the system, because they can estimate which shocks will take place. These are related to new products and new technologies introduced by the entrepreneurs themselves. Because multinational companies operate worldwide, they can bring together information from different parts of the world, bring them together, and formulate a coordinated response.

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[1] M. Albert, *Capitalisme contre capitalism* (Paris: Editions du Seuil, 1991).
[2] R. Whitley, ed., *European business systems. Firms and markets in their national contexts,* (London etc.: Saga Publications, 1992), 5: 'business systems are particular arrangements of hierarchy-market relations which become institutionalized and relatively successful in particular societal contexts.'
[3]Peter A. Hall and David Soskice, 'An introduction to varieties of capitalism', in: *Varieties of capitalism. The institutional foundations of comparative advantage*, ed. Peter A. Hall and David Soskice (Oxford: Oxford University Press, 2001), 1-68.
[4] Hall and Soskice, 'Introduction', 62-63.

Furthermore, he points to the importance of changes in the composition of national industries for understanding changes in the national business system.[5]

With the debates moving from charting the differences in national business systems to analysing possible changes in those systems, the question arises whether perhaps the American system had undergone similar changes to the ones experienced in Europe. Indeed, it became clear that the American business system itself had changed over time. In his book about the Marshall Plan from 1986 Michael Hogan already argues that the Americans brought the coordinated market economy to Europe after the Second World War, and that it was their main contribution to the European miracle. He describes the economic system the US exported as: 'an American brand of corporative neo-capitalism that went beyond the laissez-faire political economy of classical theory but stopped short of a statist syndicalism'.[6] There were still difference between the US and the Netherlands, for instance in the attitude towards cartels and the representation of employees at board level, but the point is that the messages coming from the US changed substantial during the second half of the 20th century. Though Harm Schöter in his book about the *Americanization of the European Economy* focuses on the US influence on Europe he also underlines that in the course of the 20th century America itself became more 'Americanized', more conforming the to the ideal type of the liberal market economy.[7]

Recently, Robert Reich describes in his book *Supercapitalism* developments in the US in the same way as we tend to look at recent changes in the Dutch business system. He explains how the US in the 1950s and 1960s experienced an unprecedented prosperity which was widely shared. More people achieved a higher economic welfare than ever before. Inequality in income was reduced by progressive income taxes, good public schools and trade unions bargaining for higher wages. Large companies considered it their duty to take into account the interests of all stakeholders, not just their shareholders, and CEOs were seen as 'corporate statesmen', who judicious balanced the private and public demands. The trade-off for this relatively stable and equitable system was a fairly limited range of choice for

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[5] Mark Casson and Sarianna M. Lundan, 'Conclusion: methodological issues in international business', in: *Economics of International Business. A new research agenda*, ed. M. Casson (Cheltenham, UK: Edward Elgar, 2000), 278-308.
[6] Michael Hogan, *The Marshall Plan: America, Britain, and the reconstruction of Western Europe, 1947-1952* (Cambridge: Cambridge University Press, 1987), 1-3.
[7] Harm G. Schröter, *Americanization of the European Economy. A compact survey of American economic influence in Europe since the 1880s* (Dordrecht: Springer, 2005), 10-11.

consumers and investors. But, according to Reich, this benign system came to an end somewhere in the 1970s when 'supercapitalism' was born. Under the state of supercapitalism consumers got more products at lower prices and investors higher returns on their investment, but as citizens seeking the common good these same consumers and investors lost out. The result was more job-insecurity, increasing inequalities of income, less regulations and more global warming.[8]

What were the drivers that changed the system? Reich argues that the change in the system began when technologies developed by government to fight the Cold War were incorporated into new products and services. This led to a revolution in international communications with regard to transport (containers) and the flow of information (IT). As a consequence, the large national companies experienced fierce international competition, often from US companies themselves, who reduced production costs by creating global supply chains. The changes were not caused by people with bad intentions but by changing structures, and a solution should be found in more democratic control over the economy, according to Reich.[9]

If we follow the arguments of Reich, than the discussion about changing business systems is not simply a matter of Europe following the US, but of both systems being changed by a third set of factors. Of these factors, globalisation stands out. The philosophy of the 1950s that it would be possible to create a cosy national economy where government and business could lift the general welfare of the population by higher wages resulting in higher demand for industrial products, obviously didn't work in an increasingly global system, a lesson that was always more evident for people in smaller countries. The term globalisation is used here in the way economics tend to interpret is, as a process in which commodity, labour and capital markets as well as consumer markets and technology become integrated on a global scale.[10] One of the important issues still under discussion is whether the economic globalisation will in due time lead to global institutions; another whether it will lead to convergence in national business systems.

For historians, globalisation is not a new phenomenon; we like to compare the present situation with the first wave of globalisation before 1914. However, according

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[8] Robert B. Reich, *Supercapitalism. The Transformation of Business, Democracy, and Everyday Life* (New York: Alfred A. Knopf, 2007), 15-49.
[9] Reich, *Supercapitalism* , 50-87.
[10] Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, *Globalization in Historical Perspective* (Chicago and London: University of Chicago Press, 2003), introduction.

to Djelic and Quark, the present globalisation is different. The late 19th century globalisation was based on personal networks: ‘reflecting friendships, deeply embedded trust and even kinship or family links’. The recent period of globalisation is based on increasing ‘formalization, structuration, codification, standardization and depersonalization of the rules of the game in the transnational space.’ Djelic and Quack argue that globalization is not only about adaptation and change of national institutions. It is also about institution building in the transnational arena. Who are involved in this process of transnational rule making? In the first place state agencies and a small number of elite personal networks are involved, but further more private corporations, business or professional associations, unions, NGOs, consumer or citizens’ groups.[11] Morgan, Whitley and Moen have delved further in the abilities of multinational companies to create cross-national capabilities and competences. They come to the conclusion that by and large the development of distinctive cross-national competences and capabilities within these firms is limited.[12]

In this paper we will analyse how multinational companies adjusted their company structures and staff policies in response to globalisation and the rise of internet. We focus on two companies, the Anglo-Dutch oil company Royal Dutch Shell and the Dutch bank ABN AMRO.[13]

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[11] Marie-Laure Djelic and Sigrid Quack, 'Introduction: Governing globalization - bringing institutions back in', in: *Globalization and Institutions. Redefining the Rules of the Economic Game*, ed. Marie-Laure Djelic and Sigrid Quack (Cheltenham, UK: Edward Elgar, 2003), 1-14.

[12] Glenn Morgan, 'Introduction: Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization', in: *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization*, ed. Glenn Morgan, Richard Whitley, and Eli Moen (Oxford: Oxford University Press, 2005), 1-17.

[13] For this case study we have drawn extensively on the recent histories of Royal Dutch SHell: Joost Jonker and Jan Luiten van Zanden, *From Challenger to Joint Industry Leader*, vol. 1, A History of Royal Dutch Shell (Oxford: Oxford University Press, 2007); Stephen Howarth and Joost Jonker, *Powering the Hydrocarbon Revolution*, vol. 2, A History of Royal Dutch Shell (Oxford: Oxford University Press, 2007); Keetie Sluyterman, *Keeping Competitive in Turbulent Markets*, vol. 3, A History of Royal Dutch Shell (Oxford: Oxford University Pres, 2007); the information on ABN AMRO is mainly based on: Gerarda Westerhuis, *Conquering the American market. ABN AMRO, Rabobank and Nationale-Nederlanden working in a different business environment, 1965-2005* (Amsterdam: Boom, 2008) p. 116-227.

Royal Dutch Shell and its response to fragmented markets

The Anglo-Dutch oil company Royal Dutch Shell was formed in 1907 through the merger of Royal Dutch Petroleum Company (60%) and "Shell" Transport and Trading Company (40%). To be precise, all the activities were merged by the creation of jointly held holding companies, but for tactical and fiscal reasons the two parent companies remained in place as two separate entities. The enterprise as a whole was often addressed as Royal Dutch Shell, or the Royal Dutch Shell Group of companies, or simply as Shell or the 'Group'. The enterprise had been founded during the first period of globalisation, and its activities were right from the beginning spread over the world, ranging from the Far East to the Americas. As such, it was the product of the first global economy, and in turn contributed to the globalisation of markets by moving oil and oil products from one country to the next. The Group was active in all aspects of the oil industry, from exploration and production, to manufacturing, trading and marketing, and from the 1930s onwards to petrochemicals. By and large their activities were integrated, though they could also sell oil they hadn't produced themselves or refine oil they had purchased from third parties. Already in the early years, the Group employed people from many different national backgrounds.[14]

Until the Second World War, Shell had organised its activities abroad by sending over managers from Europe. It seemed self evident that managerial positions abroad were filled by managers from the home countries (Great Britain and the Netherlands), and it was equally self evident that those managers earned salaries based on their home salaries, which in most cases were much higher than the local salaries.[15] Confronted with decolonisation after the Second World War, in particular in Asia, Royal Dutch Shell had to rethink its personnel policies. Aware of the ambitions of decolonised countries to create their own national management, Shell had to focus more attention on training and promoting local staff. Training local people for managerial positions made good business sense, because using expatriates was expensive. For that reason: would the ultimate aim be to replace all expatriates by local management? Shell decided that this was not the case. It would be more advantageous to continue circulating a group of expatriates through the world wide enterprise. Such a group of international managers would develop a common pattern

[14] Jonker and Zanden, *From Challenger* , 90-99.
[15] Shell London Archives (SLA), Boxes HR, internal report 'Shell and its staff', 1959, written by A.P. Blair, Shell's Head of Recruitment Division, January 1959, 16-20.

of thought, advance the interchange of experience and know-how, and constitute a world-while pool of managers on which the company could draw. This pool of international managers created the informal coherence within the vast enterprise. Therefore it was considered important that in any country at least one expatriate would be present at board level, while at the same time some local managers should gain experiences while working outside their own country.[16]

By the end of the 1950s Shell directly employed 270,000 people in more than 150 countries, so it had the possibility of moving staff flexibly according to political or social requirements. It is striking that at that moment in time Shell's Committee of Managing Directors (CMD, the highest board level of the enterprise) expected the world to become more fragmented not less. For that reason local embeddedness of the its international subsidiaries was considered important: 'with the development of nationalism in many countries, and with independence being granted to more and more colonial territories, there was an increasing need for General Managers in overseas countries to establish themselves there, and to become proficient in local languages.'[17] These General Managers were often expatriates, but they were expected to learn the local language and take local interests into account.

In the 1950s, Shell also addressed the lingering problems related to its internal organisation. The Group had always given the local operating companies a great deal of autonomy for fiscal reasons and to encourage local entrepreneurship. Central offices wrote to the operating companies in terms of 'suggestions' rather than instructions. Proposals by operating companies were not so much agreed upon as well 'supported'. But if the proposals were not supported, the local managers knew they were wise not to proceed. Like all international companies Shell had to strike a balance between decision taking at central offices or at the level of local companies, and between coordination through businesses or national organizations. Moreover, for historical reasons the central offices were spread over two cities in two different countries, in The Hague and London, and the division of labour between the two offices was far from clear cut. These three problems needed to be addressed. In 1955 the Shell's Committee of Managing Directors (CMD) rationalised the central office organisation by nominating coordinators (a kind of vice-presidents, reporting to the CMD) for the various business functions, such as supply, exploration and production,

[16] SLA, Boxes HR, internal report 'Shell and its staff', 32-33.
[17] SLA, Committee of Managing Directors (CMD) files S12, Personnel, 1957-1962, 19 Feb. 1959.

manufacturing, marketing, chemical and finance. At the same time the line management was based on geographical areas. The question arose to whom the operating companies had to report and were accountable.[18]

To have the benefit of an outsider's view, and one that would be neither Dutch nor British, the CMD invited the American consultant McKinsey to study their organisation structure and come up with recommendations. However, they told McKinsey from the outset that the two central offices in The Hague and London were not debatable. The fine-tuning of the organisation by McKinsey resulted in the creation of two divisions, oil and petrochemicals. It was the standard recipe of McKinsey for large organisations, though in the Shell case, this was not really the essence of the reorganisation, and moreover, the petrochemicals division remained subordinated to the oil division for the time being.[19] The real issue at stake was how to combine the functional and regional reporting lines. This problem was solved by establishing at central office a number of regional coordinators alongside the functional coordinators. The operating companies were accountable to the regional coordinators, who represented a vertical line from managing directors to the managers of the operating companies. In contrast the functional coordinators had a horizontal (advisory) line with the managers of operating companies. The managing directors in the CMD had both functional and regional coordinators reporting to them. The matrix structure presumed consultation between the coordinators before plans were brought up to the CDM. Thus all plans were carefully weighted before the CMD had to consider them, and consequently the CMD had more time available to devote to more strategic decisions. [20]

The matrix structure as applied to the Shell organisation in 1959 seemed to be a logical response to a still largely fragmented international economy, where newly established nations gave high priority to the economic advancement of their own country. On the one hand, Shell tried to become locally embedded, while on the other hand maintaining a strong international character. The Group proudly pointed out in

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[18] Howarth and Jonker, *Powering* , 137-139

[19] Christopher D. McKenna, *The World's Newest Profession. Management Consulting in the Twentieth Century* (Cambridge: Cambridge University Press, 2006): 176-181; McKenna's description of the reorganisation suggest that the introduction of the petrochemicals division is the core of the reorganisation, while in my view it is the introduction of the matrix structure, balancing geographical and functional reporting lines. McKinsey did not have to sell the idea of decentralisation to Royal Dutch Shell, because it was already decentralised.

[20] Howarth and Jonker, *Powering* , 140-148.

its annual report of 1969 that it employed people with sixty different nationalities worldwide, and that the central offices alone housed already forty different nationalities. Foreign nationals had been able to enter the core group of about 5,000 expatriates.[21] But despite this variety, most expatriates in Shell were either Dutch or British. In 1960 Dutch and British expatriates made up 87 per cent of the total group on international staff, and in 1970 that share was still 78 per cent.[22]

From the late 1960s onwards, the governments of oil exporting countries began to push international oil companies for a greater share in the oil production in their countries. In particular after the first oil crisis in 1973, the relationship between the two parties changed dramatically with national governments of oil exporting countries stepping up their participations in the oil concession in their own countries from a modest 25 per cent to 50 per cent and then moving to some 70 per cent or even complete nationalisation. For the time being the international oil companies remained involved in the production and marketing of oil, because they still had the access to markets, but they became more dependent on national governments.[23]

The greater role national governments began to play in their national oil industry reduced the integration of the activities of the oil majors such as Shell. In reaction, Shell expected its downstream operations to act more independently and take responsibility for their own profits. This change seemed to demand organisations that were less hierarchical and more organised from bottom up. Moreover, employees were seen as important stakeholders in the company. Discussing the merits of diversification outside the oil industry in the late 1960s, the CMD argued that a company had a life of its own and that senior management had the mandate to manage shareholders' funds in such a way that the interests of employees as well as shareholders and the community at large were taken into account. Shareholders did not necessarily come first.[24] This point of view continued throughout the 1970s. Profits were seen as necessary for Shell companies to stay in business, but not as a goal in themselves, the company was not working for its shareholders alone but for all the relevant stakeholders, including the national governments. Though its markets were international, the Shell operating companies were firmly embedded in the local economies. This approach as well as the internal organisation and staff policy came

[21] Royal Dutch Annual Report 1969, 14-15.
[22] Sluyterman, *Keeping Competitive* , 265.
[23] Sluyterman, *Keeping Competitive* , 31-35.
[24] SLA, CMD files, DCS, S 65, Minutes CMD, 4 May1971.

under pressure in the 1980s. Before we discuss those pressures, we will first turn to the international organisation of the Dutch bank ABN, before it merged with ABN AMRO in 1990.

The international organisation of ABN Bank

Royal Dutch Shell remained basically the same company after the merger between Royal Dutch and Shell in 1907. In contract, the Dutch bank ABN AMRO was the result of two important mergers: the first took place in 1964 between the two Dutch banks NHM and Twentsche Bank, creating ABN Bank, and the second, in 1990, between ABN Bank and the Dutch bank AMRO. For much of its history ABN and later ABN AMRO was the largest bank in the Netherlands. In 2008 ABN AMRO came to an abrupt end, when the shareholders sold the company to a consortium consisting of Royal Bank of Scotland, Fortis and Banco Santander that broke it up.

After the Second World War the banking sector was highly nationally oriented. National banking regulation often played a limiting role on the internationalisation of banks. For example in Norway, regulation had restricted both Norwegian banks expanding abroad and foreign banks establishing themselves in Norway.[25] European countries like France and Italy in general have been quite protectionists in safeguarding national banks against foreign takeovers. However, many important clients of banks, the large corporations and multinationals, started looking across the border more often. In order to keep these clients, banks were more or less forced to follow them abroad and/or offer international banking services, such as international payment facilities. One way to do this was by joining a banking consortium, which became an important and relatively safe way to be active in foreign countries in the 1960s and 1970s. ABN Bank became member of ABECOR, the Associated Banks of Europe Corporation, in 1971.[26] Its ambitions were less than the ones of other consortia; it never formulated a jointed strategy or a policy of shared

[25] Siv Fagerland Jacobsen and Adrian E. Tschoegl, 'The international expansion of Norwegian banks', *Wharton School Center for Financial Institutions, University of Pennsylvania* (August, 1997), p. 3.
[26] Participating banks were ABN Bank (Amsterdam), Banque de Bruxelles (later Banque Bruxelles Lambert) (Brussels), Bayerische Hypotheken- und Wechsel Bank (Munich), Dresdner Bank (Frankfurt am Main). In the following years the membership was enlarged with Österreichische Länder Bank (Vienna), Banca Nazionale del Lavoro (Rome), Banque Nationale de Paris (Paris), Barclays Bank Ltd. (London), Banque Internationale a Luxembourg (Luxembourg) and Banque de la Société Financière Européenne (Paris).

branches. Rather it positioned itself as a training centre, producing and publishing reports, forecasting interest rates, and organising trade shows.[27]

ABN Bank has always been highly internationally oriented. Especially since the 1970s the bank started to expand in the international markets. Apart from seeking alliances with other banks (ABECOR), it expanded by opening offices in foreign countries as well as by acquiring foreign banks, and by focusing on centres of world economic power: Western Europe, North America and Southeast Asia. The focus on these countries was inspired by the fact that for instance independence of the former Dutch colony of Indonesia led to fewer banking possibilities here. Other expansion initiatives in emerging markets turned out unproductive. For example expansion in Africa during the 1950s and in Latin America in 1968 was hindered by political instability.[28] ABN Bank thus shifted its attention to politically stable countries. Expansion in Europe turned out difficult, because of different and sometimes protectionist legislation. In contrast, the American market was more open to foreign investors.[29] An important acquisition of that time was for example the acquisition of LaSalle National Bank in de Midwest of the United States in 1979. This acquisition was followed by many others in this region. They were all integrated into LaSalle, creating one large American organisation. The bank also expanded by the opening of branches, especially but not exclusively, in countries with less growth potential. Branches were established here to serve corporate clients.

An important difference between branches and subsidiaries is the fact that branches are an integral part of the parent company. This means that as the parent goes bankrupt so will the branches. In contrast, a subsidiary is a separate legal identity incorporated in the host country, in which the parent company has a majority ownership. A subsidiary may fail even though the parent is solvent, and vice versa. The difference between foreign branches and acquisitions also explains the different way of managing them. Branches were foremost directed from head office in the Netherlands, while the foreign acquisitions operated by delegated authority. They

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[27] Jan Luiten van Zanden and Roland Uittenbogaard, 'Expansion, internationalization and concentration, 1950-1990', in: Worldwide banking. ABN AMRO Bank 1824-1990, eds. Joh. de Vries, Wim Vroom and Ton de Graaf (Amsterdam: 1999), p. 370-371: 369.

[28] Jan Luiten van Zanden and Roland Uittenbogaard, 'Expansion, internationalization and concentration, 1950-1990', in: Worldwide banking. ABN AMRO Bank 1824-1990, eds. Joh. de Vries, Wim Vroom and Ton de Graaf (Amsterdam: 1999), p. 370-371.

[29] Gerarda Westerhuis, *Conquering the American market. ABN AMRO, Rabobank and Nationale-Nederlanden working in a different business environment, 1965-2005* (Amsterdam: Boom, 2008).

were permitted to act according to local practices. It was felt that the management of acquired banks possessed the relevant knowledge of the local markets and therefore knew what was best for the company. After the acquisition of a foreign bank, its management remained seated, while new employees were recruited locally and wages were set according to local standards.

In the 1970s ABN Bank's human resource management enclosed three important pillars.[30] First, ABN used a management development program to train qualified Dutch employees. The program had to prepare them for higher key positions. The building of international experience was one aspect of it. Second, the bank had a pool of expatriates, which mainly consisted of Dutchmen. The foreign branches were often headed by one of these expatriates. In 1964, ABN Bank had 100 expatriates, and this number grew to 170 in 1974. And third, the foreign acquisitions used their own systems of human resource management. An example will illuminate this local focus. LaSalle National Bank had its own management development program. Every year twelve students from the US were selected to participate in the Management Assistant Program. Over three to four years they worked at different departments of LaSalle. An important part of the program was a temporary position managing six to twelve employees. They were motivated to obtain their MBAs via evening classes. Although a foreign acquisition like LaSalle was self-supporting, ABN Bank kept qualified Dutch expatriates at key positions in the LaSalle organization.

During the 1980s, under the influence of the bank's international expansion, the expatriate system changed and became open for foreigners. It became an internationally oriented program. The bank expected that the number of foreign branches would grow faster than the number of Dutch expatriates that could manage them. Consequently the bank decided to lift the barriers between domestic and foreign human resource management. The pool of expatriates was extended to foreign talented employees and foreign employees were selected to participate in specialized and management trainings at the International Banking Institute at Bad Homburg, a training centre founded in 1972 by the member banks of the ABECOR consortium.

[30] Gerarda Westerhuis, *Conquering the American market. ABN AMRO, Rabobank and Nationale-Nederlanden working in a different business environment, 1965-2005* (Amsterdam: Boom, 2008), 116-122.

Branch managers were more and more recruited locally, which was another way to fill senior managerial positions. Especially in well developed countries with a market for experienced bankers this was a good alternative. So, the expatriate system became more internationally oriented. The international conferences held by ABN Bank are a good illustration of the developments. They were organized for international senior management to meet each other and exchange ideas. The official reported objective was to transfer ABN Bank's culture and to cultivate mutual understanding. Not only were foreign expatriates active in the international part of the bank. The Dutch management development system opened up to foreigners as well. This was considered necessary to motivate foreign managers to stay at ABN Bank.[31] Foreigners had to deal with a ceiling in their careers because after the position of branch manager there were no other career possibilities with the exception of a few regional management positions. In a strategy note of 1989 it was stated that talented foreign people had to be able to qualify themselves for executive positions in the Netherlands.[32]

At the end of the 1980s ABN Bank was confronted with limitation of its capital base. It was not able to become a global player on its own. Autonomous growth was hard to accomplish and expanding through acquisitions was not maintainable since the prices of acquisitions had increased including goodwill payments. Thus, one of the reasons for ABN Bank to merge with another bank was enlargement of its capital base. In 1990 it merged with the Dutch bank AMRO into ABN AMRO. In 1964 18% of ABN Bank's staff worked in a foreign country. In 1989 this percentage had increased to 36% and dropped a little in 1990 because of the merger. AMRO Bank was compared to ABN Bank less internationally oriented.

Shell responding to vocal shareholders and global markets

The liberalisation of financial market and changes in national regulations regarding the financial sector, in particular in the US, changed the relationships between companies and their shareholders. Financial raiders in the US demonstrated that they could and would make or break a company if management did not achieve the perceived maximum share price. For them a company was not a personality of its

[31] ABN AMRO Historical Archives, inv.nr. 4367: Minutes Supervisory Board, May 20, 1988.
[32] ABN AMRO Historical Archives, inv.nr. 4367: Minutes Supervisory Board, November 10, 1989.

own, but a bundle of assets to be managed to the best advantage of the investors. In the wake of the action of the financial raiders, shareholders became more critical of the performance of managers. They could raise their voice louder because shareholders were no longer a large and anonymous group of individuals but consisted in part of strong institutional investors such as pension funds. Shell responded by putting underperforming assets up for sale, including most of the assets acquired in the context of the diversification strategy, and by launching reorganisation programmes to cut down costs and reduce the number of employees. It was unfortunate for the oil industry that shareholder pressure increased just when oil prices went down, making it harder for management to please the shareholders.

In 1986 the oil price collapsed and more cost cutting became necessary. After a round of discussions with senior management, the CMD initially accepted the conclusion that the matrix structure was still the right structure for the company. The outcome was not entirely surprising as the chairman of the CMD, Lo van Wachem, passionately believed in the great value of devolved management responsibility resting in the national operating companies: 'The local operating company, be it Deutsche Shell or Shell Chile, is the cornerstone of our operations as we believe that local management is best placed to make the most appropriate decisions in the local business environment', he told the members of the German Society of Business Economics in 1992.[33] But local management had to go hand in hand with unifying forces. The expatriate postings formed one of the important factors in creating unity.[34] Expatriation continued to serve two important goals. It contributed to local embeddedness and it created a core group of managers who knew each other and could rely on each other.

In the early 1990s the Shell global scenarios highlighted two important changes in world history. The collapse of the Soviet Empire brought to an end the framework of international affairs in place since the Second World War. At the same time the world realized, according to the scenarios, that authoritarian political regimes and centrally planned economies simply did not work. In the rich countries as well as in Latin America and Asia, privatisation and deregulation were the order of the day. Political liberalisation went hand in hand with economic liberalisation. Two years later, in 1994, the Shell scenarios concluded that the powerful forces of liberalisation,

[33] Van Wachem, 'Unity in diversity'.
[34] Ibid.

globalisation and technology were there to stay. No alternative economic or ideological model could compete with the emerging global consensus about the value of open markets and the necessity for macroeconomic prudence. The scenarios concluded that the world had learned in the 1990s that 'There Is No Alternative' to adapting to these powerful forces: 'TINA is a rough, impersonal game, involving stresses and pressures akin to those of the Industrial Revolution. Under these pressures, some people will do well – the knowledge elites, for example, who can seize opportunities whenever and wherever they arise. But others, who are not so entrepreneurial or well educated, feel the pressure of job insecurity, and income inequality grows in almost all developed nations. Precisely because "There Is No Alternative", people in many parts of the world fear a growing loss of control over their destinies and also fear that the lives of their children will be more difficult than their own.' Refusing to play the game, however, was no alternative in the vision of the Shell scenarios. 'The issue is, therefore, not whether a country or company can refuse to play the game – but what is the best way to play it? What are the strategies necessary for success?'[35]

Under the pressure of the forces of liberalisation, globalisation, and technology, the dynamics of the business had changed. New companies, in particular the internet companies, showed double digit growth. On top of that, new competitors entered the arena: the 'low-cost, nimble-footed' competitors such as Enron. Was the Shell Group still in tune? Cor Herkströter, who became the chairman of the CMD in 1993, had a completely different view that Van Wachem. He concluded that the internal organisation needed a thorough overhaul. The CMD set up a team to review the role of the central offices and enlisted, once again, the support of two consultants from McKinsey. The first concern was that the service provided by the central offices were not always those desired by the businesses. The service providers were regarded as dictating to the operating companies and as charging excessively for their services.[36] It was expected that reduction of the number of organisational layers would reduce costs and make the organisation more flexible and responsive to the market. But the trend towards globalisation seemed to demand more drastic changes in the whole organisation. The operating companies would remain the 'building

[35] Shell Global Scenarios 1992-2020 and Global Scenarios 1995-2020.
[36] SLA, SC 98, Service companies review and transformation, 1995-1997; SHA, Minutes Conference, 14 Dec. 1994, 11 Jan. 1995, 8 Feb. 1995.

blocks' of the Group, but they would be defined according to their business instead of their nationality. The emphasis in the central offices would shift away from the national and regional organisation towards five worldwide businesses (except for North America): Exploration and Production, Oil Products, Chemicals, Gas, and Coal. So, this time the matrix structure was finally abolished. The financial pressures demanded a more efficient, cost-effective organisation. In a globalising world the traditional local embeddedness seemed less relevant than before, and the information technology offered other ways of communication between the central offices and the local companies.

At the same time, the relationship between the company and its employees changed. No longer were employees treated as important stakeholders in the company. Instead they were seen as valuable people who might join the company for a shorter or longer time and then move to other companies. For instance, to reduce overheads, the reorganisation aimed at reducing the number of employees at central offices by 30 per cent.[37] The company did no longer offer job security for all, but instead offered 'innovative payment structures' to reward high-level performers, and training and development of skills to increase the individual's value on the labour market.'[38] In Dutch society performance related payments for large number of employees formed a new element in labour relations. Other companies in the Netherlands followed a similar remuneration policy. While in the previous decades incomes had become more equal, during the 1990s the opposite happened and the disparity in incomes increased again.[39]

Shell's reorganisation of the mid-1990s did not bring an end to the system of expatriates, but it became more difficult than in the past to find employees willing to serve outside their own country. The life of the expatriates had lost some of its glamour when international travel became easy and affordable to many. Moreover, spouses often wanted to pursue their own careers, and parents were more reluctant to send their children off to boarding school. One might have expected that the easier communication made possible by internet would reduce the importance of expatriates, but Shell continued to make use of them. Consistent efforts were made to find ways of

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[37] *Shell World*, April 1995.
[38] *RD Annual Report* 1994.
[39] Willem Trommel en Romke van der Veen, *De herverdeelde samenleving. Ontwikkeling en herziening van de Nederlandse verzorgingsstaat* (Amsterdam University Press, 1999), 271-273.

reducing the negative aspects of expatriation.[40] During the 1990s the group of expatriates became more international. In 1988 no more than 26 per cent of expatriates had other nationalities than Dutch or British. In 2001 this percentage had risen to 37. In another respect the group also became more diverse: the number of female expatriate employees doubled from 4 per cent to 8 per cent (excluding Shell school teachers).[41]

By removing the regional structure during the mid-1990s, some of the former coherence in the enterprise disappeared. More generally, in the 1990s the trend had been towards fragmentation and lowering responsibilities in the organization: this led to some successes locally, but also to developments that were ill aligned. In the business sector Exploration and Production, local decision making encouraged a reduction in risk taking, because the risk was measured against the local budget, not the international budget of Shell. To counter these negative effects of fragmentation, the business sector introduced a new global business operating model in 2004. This involved standardising and simplifying the business processes to increase learning and speed up action.[42] In addition, the global model made it easier to tackle huge, complicated and expensive projects, the kinds of multi billion dollars projects that only large integrated oil companies could undertake.[43] This way Shell could better profit from its size.

As was the case with Exploration and Production, the business sector Oil Products made its organisational structure more global. First Shell set up a number of regional organisations such as Shell Europe Oil Products. The formation of regional organisations made it easier to coordinate the closure of small refineries. Next the regional organisations were integrated in one global organisation. Part of the globalisation process included streamlining the supply chain through standardisation of processes and systems. The local embeddedness of Shell's retail organisation had led to the mushrooming of different ways in which Shell and those who owned or operated the service stations ran their business. In 2005 Shell calculated that it had around fifty different business models and the aim was to reduce that number to four.

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[40] Shell Outpost Family Archive Centre, Outlook Expatriate Survey: summary of findings and summary of changes; *Shell World*, Feb. 1995.
[41] SLA, Boxes HR, regional & international staffing study (around 1989); *Destinations*, number 21, December 2001.
[42] *Shell World*, July 2003, 19-21.
[43] Jeroen van der Veer, 'Shell's strategy to fuel the future', (paper presented at the IMD CEO Roundtable, Lausanne, 11 November 2005).

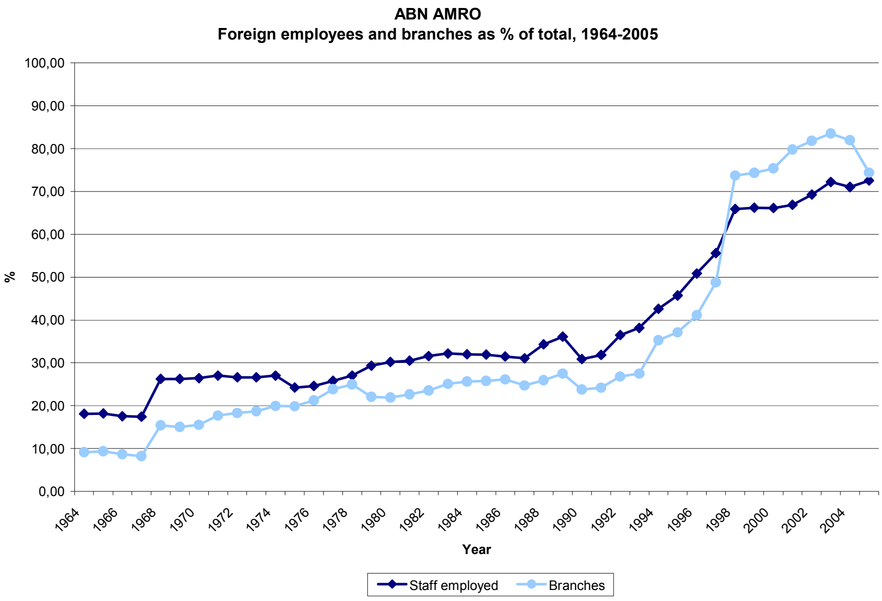
The number of IT applications involved in business-to-business transactions had to be reduced from 460 to around 50. Shell warned its employees: ‘Pleading for exceptions is a thing of the past’.[44] By introducing global business units and introducing global systems, Shell responded to processes of globalisation and at the same time underpinned those processes. This development implied less room for national variations.

The ‘globalisation’ of ABN AMRO

The merger with AMRO Bank into ABN AMRO in 1990 provided new means for international expansion. At that moment ABN Bank had 269 offices in 48 countries outside the Netherlands, and AMRO Bank had 106 offices in 15 foreign countries.[45] The main difference between the two was that ABN Bank had focused its foreign activities more locally (commercial banking on a local basis), while the foreign offices of AMRO Bank were oriented towards serving Dutch enterprises and major multinationals. Consequently the branches of the latter were managed from Amsterdam, in contrast to decision-making at ABN Bank, which was delegated to the different regions. After the merger most of the AMRO offices were integrated into the ABN Bank organization.

During the 1990s ABN AMRO bought many American banks in the Midwest and integrated them into one strong organization. Besides the US, the bank expanded in Europe and acquired Banco Real in 1998 obtaining a new home market in Brazil. It still expanded by establishing branches as well, resulting in a presence of the bank in 74 countries in 1999. The rapid expansion of the bank into a multinational is demonstrated in figure 1. It shows that from the mid-1990s the bank had more employees and branches outside than inside the home country.

[44] *Shell World*, May 2005, 10
[45] Christiaan Berendsen, ‘Global ambitions, ABN AMRO Bank 1990-1999’, in: Worldwide banking. ABN AMRO Bank 1824-1990, eds. Joh. de Vries, Wim Vroom and Ton de Graaf (Amsterdam: 1999), p. 370-371.



Source: Annual reports ABN Bank (1964-1990) and ABN AMRO (1990-2005).

The creation of an international instead of a Dutch pool of expatriates had been part of ABN Bank's strategy and was continued after the merger. The number of expatriates increased from 180 in 1986 at ABN Bank to 293 in 1992, a few years after the merger with AMRO Bank. 22.5% was foreigner that year. In 1996 the bank had a pool of 481 expatriates, of whom 194 were foreigners (40.3%).[46]

Within the bank human resource management changed from a policy with emphasis on the preservations of local practices and norms to one umbrella system. This meant that for example higher managers from different countries were no longer trained according to their local standards. They all obtained the same management trainings in global training centres. It resulted in the internationalization of senior management and even of the managing board, which both increasingly more consisted of foreign people after 1994 and 2000 respectively. We can almost speak of a globalization of the bank's higher management.

For the management development program management trainees were recruited from abroad within the banking organization and from international universities and business schools. To train the diversified group of people the bank together with leading universities and business schools developed management trainings. For example a Senior Executive Program was given at INSEAD in France

[46] ABN AMRO Historical Archives, Social report ABN AMRO, 1995 and 1996.

and in cooperation with Nyenrode Management Development Centre a program for management development was created. In 1996, the ABN AMRO Academy was opened with regional training centres in Singapore, Chicago and Amsterdam. This institution illuminates the transition to a more global orientation of the bank.

Management development and the expatriate system both were opened up to foreigners, in order to be able to manage the growing (international) activities of the bank. Another outcome of the bank's rapid internationalization in the 1990s was the shift in focus to efficiency. The worldwide competition increased after the capital markets had been liberalized and more interwoven. This globalization of the capital markets had been made possible by the rise of communication technologies which permitted the emergence of a 24 hour global financial market. As a result in order to survive ABN AMRO had to reduce costs and increase earnings. One part of this strategy was the introduction of a performance related pay, which since 2006 has been introduced for all employees. Again, umbrella initiatives were thus implemented to all regions independent of local norms and values. Multinationals like ABN AMRO bring different 'rules' or 'practices' to countries, including the Netherlands than the local ones. In the Netherlands as a result a new institutional scope had to be developed which as an unwritten rule led to many discussions at first. The public indignation to the large bonuses that are being paid to executives is a well known example.

After the merger the company held more or less the same organisational structure as ABN Bank, with a focus on the various regions. Only in 2000 did the organisational structure change significantly into one with three Strategic Business Units (SBUs). These business units operated worldwide and largely independently while the regional divisions lost their dominance. This change was inherent to the goal of becoming more efficient as stated above. The bank had to reorganise to be able to value its activities and employees. The important aims of the reorganisation were 'to focus the activities more precisely, to improve service to clients, and to increase transparency of and accountability for value creation or destruction'.[47] Creation of shareholder value became the spearhead of ABN AMRO.

The 'globalization' of ABN AMRO was also evident in more visible aspects of the company. In the 1970s and 1980s the bank accepted and even wanted to preserve the local brand names of acquired foreign banks. LaSalle had to keep its

[47] ABN AMRO Historical Archives, Annual report ABN AMRO, 2000.

brand because of its strong name in the community, an important aspect for building trust. Standard Federal Bank had a strong recognition in the state of Michigan and thus kept its name as well. In 2003, ABN AMRO decided to rebrand its subsidiaries in Europe and the US. The ABN AMRO logo, a green-yellow shield, was added to the local names.[48] And the brand name of the parent company was placed alongside the local names. The new branding was believed to be essential for recognizing all subsidiaries to be members of ABN AMRO and for sharing the same corporate values and business principles. Lastly, before, each country or region created its own advertisements. Although this is still the case, ABN AMRO has introduced worldwide one umbrella tag line 'Making more possible'.

The internationalisation of higher management and expatriates already started at ABN Bank in the 1980s. This policy was continued after the merger with AMRO Bank in 1990. The expatriates formed a kind of bridge between the different regions that were all operating quite autonomously. Creating mutual understanding and communicating the bank's values and culture were an important aspect of these international elite groups. Only in 2000 did ABN AMRO become more global in its organisation by creating worldwide business units, after which the regions lost importance. This organisational change was supported by the rebranding of subsidiaries, the creation of business principles, the opening of an Academy and the introduction of one tag line. Last year when ABN AMRO was threatened to be taken over, it sold its American activities to Bank of America. LaSalle had developed into one of the largest foreign owned banks in the US. The fact that LaSalle could be sold and disintegrated from its parent quite easily seems to suggest that ABN AMRO had not yet succeeded in becoming a global company.

Conclusion

The two cases show that internationalisation of companies does not necessarily lead to global integration. Royal Dutch Shell adjusted itself to the fragmentation of markets during the interwar period and underpinned the process of fragmentation by its emphasis on subsidiaries organised around nationality. In this way Shell accommodated differences in national business systems. After the Second World War

[48] ABN AMRO press release 'ABN AMRO announces rebranding major subsidiaries in US and Europe', February 13, 2003.

a process of international integration via new institutions competed with fragmentation through the Cold War and the end of colonial empires. Moreover the governmental policies were firmly concentrated on furthering the national economy. Under these circumstances, the enterprise remained committed to the national organisations of its international activities, with a group of expatriates creating coherence within the enterprises on a personal basis. The same was true for ABN Bank. In the 1970s and 1980s the various regions were dominant keeping their own responsibilities and operating according to local standards. It was thought that the local companies new the markets best. The (mainly Dutch) expatriates were placed at branches and at key positions in subsidiaries. Thus, head office was able to transfer ideas and keep an eye on foreign activities in a more personal way.

The economic integration of Europe, the liberalisation of financial markets with the increasing pressure of shareholders and the IT revolution with its possibilities of global connections and the accompanying globalisation created a new situation for multinational companies in which moving to global systems became a high priority. It was the combination of political and technological forces that led Shell and ABN AMRO to a change of strategy. Shell ended the ‘local fiefdoms’ and created one global company based on business sectors. After discussions and critical assessments during the 1980s, this process took finally place in the 1990s. ABN AMRO (ABN Bank before 1990) showed a similar change in its policies towards its foreign operations. In the 1970s it focused on the preservation of local differences. Foreign acquisitions kept their brand names, management and staff policies. In response to the increasing global competition, ABN AMRO became more global by introducing worldwide business units, global management trainings, an international expatriate system, one remuneration system and by adding the ABN AMRO logo, brand name and tag line to the local ones. In this way, both multinationals responded to the economic globalisation, and in its turn enforced the process of global institution building. By creating international systems, they also added to the changes in local business systems, most strongly in labour relations and the attitude towards the shareholders.