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Multinationals and the Dutch Business System: The Cases of Royal Dutch Shell and Sara Lee

The impact of the strategies of multinational companies on the Dutch business system during the twentieth century is described in relation to two firms. The first case examines the attitude of the Dutch (in this example, Anglo-Dutch) parent company Royal Dutch Shell toward its international subsidiaries. The second looks at the approach taken by the American company Sara Lee toward its Dutch subsidiary, Douwe Egberts. Until the 1980s, both companies were prepared to adjust their organizations to national traditions and ambitions. However, when these nationally based global firms came under pressure during that decade, both changed their organizational structures. Their actions can be seen both as responses to globalization and as attempts to advance that process by simultaneously building international institutions and changing elements of the national business system in the Netherlands.

Since the 1980s, academics have been examining the degree to which market globalization has influenced national business systems. Though initially the debate focused on the robustness of these systems, recent discussions have moved from emphasizing the differences between countries to analyzing the changes that have occurred over time. It has become clear that national business systems are not static.[1] The study of multinational companies offers an obvious and promising

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[1] See the introduction by Keetie Sluyterman to this special section on page 737. The authors would like to thank our colleagues from the BINT project, Bram Bouwens, Joost Dankers, Mila Davids, Jacques van Gerwen, Ferry de Goey, Abe de Jong, Erik Nijhof, Jan Peet and Arjan van Rooij, Gerarda Westerhuis, and the anonymous reviewers of *BHR* for their helpful comments on an earlier draft.

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approach to the subject of changing national business systems. In this article, we use the term "multinational company" in the general sense of a company that conducts activities abroad. By definition, multinational companies operate in two or more countries whose business systems are often different. We have adopted the sociologist Richard Whitley's definition of a business system as a distinct pattern of organizing economic activities successfully in a market economy. A national business system is characterized by the nature of its firms, the organization and coordination of its market, and its control systems.[2] By definition, multinational companies have to organize their activities across institutional and national divides. In doing so, they may have an impact on national business systems, raising critical questions about the degree to which multinationals have created internal global institutions. For a country like the Netherlands that has an open economy, the relation of multinational companies to its national business system is particularly relevant. For much of the twentieth century, the Netherlands was ranked as one of the world's top foreign direct investors, after the United States and Great Britain. In the mid-twentieth century, it moved ahead of most other European countries, and there were periods when it easily belonged among the top ten.[3] Its position in inward foreign direct investment became more important during the twentieth century.

Globalization is not a new phenomenon, and, over the course of the twentieth century, different aspects of globalization and deglobalization were at play. The term "globalization" is used here in the way economists tend to interpret it: as a process in which commodity, labor, and capital markets, as well as consumer markets and technology, become integrated on a global scale.[4] The nineteenth century saw the rise of what the economists Ronald Findlay and Kevin O'Rourke term the first "golden age of globalization." World War I brought this global economic integration to an abrupt end. The attempt to recreate the prewar globalization in the 1920s failed because of the disruptive consequences first of the depression of the 1930s and then of World War II. Protectionist trade measures abounded, and financial markets became closely regulated. While international trade between countries in the Organisation for Economic Co-operation and Development resumed after World War II, the world economy showed further disintegration as a consequence of

[2] Richard Whitley, ed., *European Business Systems: Firms and Markets in Their National Contexts* (London, 1992), 5. See also the introduction by Sluyterman to this special section.

[3] Geoffrey Jones, *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century* (Oxford, 2005); Keetie E. Sluyterman, *Dutch Enterprise in the Twentieth Century: Business Strategies in a Small Open Economy* (London, 2005).

[4] Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, *Globalization in Historical Perspective* (Chicago, 2003), introduction.

the cold war and decolonization, which affected both trade and, to an even greater extent, capital markets. Because they considered that unregulated capital markets were the cause of the 1930s depression, governments restrained private capital movements.

The 1970s marked another turning point. After the industrial countries introduced floating exchange rates, their governments reduced or lifted capital-account restrictions. In the 1970s and 1980s, Latin America, Asia, and Africa started to open up to international trade and investment, a trend that accelerated during the 1990s. The ratio of world trade to gross domestic product (GDP) grew higher than it had ever been, as did the ratio of foreign direct investment to GDP, both signaling the onset of a second age of globalization.[5]

Multinational companies support the globalization of markets by internalizing both production and services. To what extent have multinational companies become global organizations? The economists Paul Doremus, Louis Pauly, Simon Reich, and William Keller offered this argument in 1998:

> The global corporation, adrift from its national political moorings and roaming an increasingly borderless world market, is a myth. States charter MNCs [multinational companies] and shape the operating environments in which they flourish. States retain the political authority to steer their activities.[6]

The authors concluded that the world's leading multinational companies continued to reflect the characteristics, policies, and values of their countries of origin. Thus, in their opinion, the behaviors of multinationals from different countries will not converge to create one seamless global market. Nor are these firms likely to change the national business systems.[7]

The influence of multinational companies on national business systems is addressed by sociologists and political economists in a book on the multinational firm, first published in 2001 and edited by Glen Morgan, Peer Hull Kristensen, and Richard Whitley. In the introduction, Morgan poses this question: "What happens when a firm organizes across institutional and national divides?" The editors' working assumption is

[5] See the following by Ronald Findlay and Kevin H. O'Rourke: "Commodity Market Integration, 1500–2000," in *Globalization in Historical Perspective*, ed. Bordo, Taylor, and Williamson, 13–64, and *Power and Plenty: Trade, War, and the World Economy in the Second Millennium* (Princeton, 2007), 425–28, 471–73, 525–26; see also Maurice Obstfeld and Alan M. Taylor, *Global Capital Markets: Integration, Crisis, and Growth* (Cambridge, 2004), 23–42, 158–63.

[6] Paul N. Doremus et al., eds., *The Myth of the Global Corporation* (Princeton, 1998), 3–4.

[7] Ibid., 138–49.

that the result will not be convergence toward a single model of the "global firm," but, rather, continued diversity and divergence among firms as they adjust to different institutional contexts.[8] In his contribution to the book, Whitley supports this assumption, arguing that before multinational companies are able to have an impact on the national business systems of either their hosts or their home countries, they first have to develop strong global organizational properties and capabilities themselves. Potentially, they could create new organizational structures, particularly when confronted with different national business systems. In reality, according to Whitley, they are unlikely to do so, because most multinationals are still firmly embedded in the national business system of their home countries.[9] In his introduction to a more recent collection of articles, published in 2005, however, Glenn Morgan points out that multinational companies, working in different business systems, have the option to develop their own capabilities and to mediate between different systems, producing a synergistic outcome. In this way, they would be able to transform a number of national business systems.[10]

In a related debate, described in the introduction to this special issue, political scientists Peter Hall and David Soskice take the approach they call "varieties of capitalism." The authors originally argued that each national economy could be competitive in its own way and need not necessarily converge with others to form one global model. Companies would choose strategies that fit, and thus underpin, national institutions.[11] As their ideas evolved, the authors came to allow room for more changes, for instance, in response to technological innovations.[12] Colin Crouch, though sympathetic toward the ambitions of those espousing the varieties-of-capitalism approach, voiced concern about its emphasis on the presence of a coherent line connecting national institutions and the strategies of entrepreneurs, which, in his view, leaves

[8] Glenn Morgan, "The Multinational Firm: Organising across Institutional and National Divides," in *The Multinational Firm: Organising across Institutional and National Divides*, ed. Glenn Morgan et al. (Oxford, 2003), 1.

[9] Richard Whitley, "How and Why are International Firms Different? The Consequences of Cross-Border Managerial Coordination for Firm Characteristics and Behaviour," in *The Multinational Firm*, ed. Morgan et al., 27–68.

[10] 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, 2005), 1–17.

[11] 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, 2001), 1–68.

[12] A recent article by Hall and Thelen focuses on the possibilities of institutional change in varieties of capitalism. Peter A. Hall and Kathleen Thelen, "Institutional Change in Varieties of Capitalism," *Socio-Economic Review* 7 (2009): 7–34.

actors little room to make policy choices. He argued: "Actors seem to exist in an iron cage of institutions, which they cannot change. Yet we know that institutional innovation does take place."[13] He stated that there should be enough space in the social models for people to create new institutions in the same way that entrepreneurs form new combinations. He used the expression "institutional entrepreneurs" to describe people who create change by recombining elements of institutions in unusual ways. His argument leads to the conclusion that multinational companies, or their managers, are strong contenders for the role of change instigator, because they are present in different national business systems and thus have a unique opportunity to recombine different institutional elements into new forms.

The economist Mark Casson, writing in his study *Economics of International Business*, holds that entrepreneurs and their companies create the necessary flexibility in the international business system to produce changes. How the changes materialize depends on social and economic factors. Entrepreneurs have the ability to change systems because they can estimate disruptions or shocks that are likely to occur. Such upheavals are related to new products and new technologies introduced by the entrepreneurs themselves. Because of their global reach, multinational companies can gather information from different parts of the world and formulate coordinated responses.[14]

Marie-Laure Djelic and Sigrid Quack argue for participants in the globalization debate to pay more attention to institution-building in the transnational arena. They describe present-day globalization as different from its earlier manifestation. In the late nineteenth century, globalization was based on personal networks, "reflecting friendships, deeply embedded trust and even kinship or family links," whereas the modern-day phenomenon is based on increasing "formalization, structuration, codification, standardization, and depersonalization of the rules of the game in the transnational space."[15] Djelic and Quack argue that globalization entails not only adapting and changing national institutions, but also building new transnational institutions. State agencies and a small number of elite personal networks make transnational rules, as do private corporations, business and professional associations,

[13] Colin Crouch, *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs* (Oxford, 2005), 3.

[14] Mark Casson and Sarianna M. Lundan, "Conclusion: Methodological Issues in International Business," in *Economics of International Business: A New Research Agenda*, ed. Mark Casson (Cheltenham, U.K., 2000), 278–308.

[15] 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, U.K., 2003), 1–14, esp. 5.

unions, nongovernmental organizations, consumer groups, and citizens' organizations.[16]

Our article for the *Review* adds to the debates we have described by presenting the examples of two multinationals operating in the Netherlands. We have selected these cases because they demonstrate the evolving attitude of the Anglo-Dutch parent company Royal Dutch Shell toward its international subsidiaries and the changing attitude of the American parent company, Sara Lee, toward its Dutch subsidiary, Douwe Egberts. We focus on changes in the international organization of both companies, the relation between the companies and their employees, and their corporate governance. Both stories recount the evolution of a corporate approach from a focus on national considerations to a wider goal of building global institutions that would underpin the general growth of globalization.

Royal Dutch Shell's Response to Fragmented Markets

Royal Dutch Shell was formed in 1907 through the amalgamation of Royal Dutch Petroleum Company (60 percent) and the Shell Transport and Trading Company (40 percent). To be precise, all their activities were merged through the creation of jointly owned holding companies, but for strategic and fiscal reasons the two parent companies remained in place as separate entities until 2005. The enterprise was often addressed as Royal Dutch Shell, or the Royal Dutch Shell Group of Companies, or simply as Shell, or "the Group." Until 2005, its headquarters (internally termed "central offices") were in both The Hague (the Netherlands) and London (Great Britain). The present headquarters are just in The Hague. By and large, the London central office looked after finance and marketing, while The Hague office supervised manufacturing, exploration, and production. As an important company in the Netherlands, Royal Dutch participated in national networks, including the organization of Dutch employers. The enterprise had been founded during the first period of globalization, and, right from the beginning, its activities were spread over the world, ranging from the Far East to the Americas. As such, it was a product of the first global economy, and in turn it contributed to the globalization 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 on, petrochemicals. By and large, its activities were integrated, although

[16] Djelic and Quack, "Introduction," 1–14.

the divisions could also sell oil they hadn't produced themselves or refine oil purchased from third parties.[17]

Until World War II, Shell organized its activities abroad by sending managers from Europe to its far-flung locations. It seemed self-evident not only that managerial positions abroad would be filled by representatives from the home countries (Great Britain and the Netherlands), but also that those managers would earn salaries based on the pay they received at home, which generally far exceeded the earnings of local employees.[18] Confronted with decolonization after the World War II, particularly in Asia, Royal Dutch Shell had to rethink its personnel policies. Once it was made aware of the ambitions of decolonized countries to create their own national managements, Shell had to pay more attention to training and promoting local staffs. Training local people for managerial positions made good business sense, because expatriates were expensive. Thus, although it might appear that the company would want to replace all expatriates with local management, Shell decided against that option and chose instead to continue circulating a group of expatriates throughout the worldwide enterprise. The cultivation of such a group of international managers offered a number of advantages, as it enabled the development of a common pattern of thought, encouraged the exchange of experience and know-how, and constructed a worldwide pool of managers whose skills the company could draw from. Such a pool created an informal coherence within the vast enterprise. Therefore, it was considered important for at least one expatriate to be present in any country at the board level, and some local managers were able to gain experience while working outside their own countries.[19]

By the end of the 1950s, Shell directly employed 270,000 people in more than 150 countries, so it had the flexibility to move staff in response to political or social requirements. At that time, Shell's Committee of Managing Directors (CMD), comprising executive members on the boards of Royal Dutch and Shell Transport, expected the world to become more fragmented, not less. For that reason, they considered it important to integrate their operations in the various national business systems: "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

[17] Joost Jonker and Jan Luiten van Zanden, *A History of Royal Dutch Shell*, vol. 1: *From Challenger to Joint Industry Leader* (Oxford, 2007), 90–99.

[18] A. P. Blair, "Shell and Its Staff," Jan. 1959, 16–20, internal report written by Shell's Head of Recruitment Division, Boxes HR, Shell London Archives (hereafter SLA).

[19] Ibid., 32–33.

languages."[20] Although these general managers were often expatriates, they were expected to learn the local language and to take local interests into account.

In the 1950s, Shell also addressed some of the lingering problems in its internal organization. The Group had always given the local operating companies considerable autonomy, both for fiscal reasons and to encourage local entrepreneurship. Central offices wrote to the operating companies, offering "suggestions" rather than instructions, and proposals by operating companies were not so much agreed upon as well "supported." But when 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 decisions made at central offices and those arrived at by local companies, and between coordinating through businesses or through national organizations. Moreover, for historical reasons, the central office was split between two locations, The Hague and London, and the division of labor between the two offices was far from clear cut. In order to address these three problems, Shell's CMD rationalized the central-office organization by nominating coordinators (a kind of vice president who reported to the managing directors) for the various business functions, such as supply, exploration and production, manufacturing, marketing, chemicals, and finance. At the same time, the line management was based on geographic areas. The decision then had to be made regarding to whom the operating companies were to report and to be accountable.[21]

To gain the benefit of an outsider's view, one who was neither Dutch nor British, the managing directors invited the American consulting firm McKinsey to study their organizational structure and make recommendations. However, the CMD chairman, John Loudon, insisted that the current arrangement of having two central offices in separate cities could not be changed. McKinsey's organizational fine-tuning resulted in the creation of two divisions, oil and petrochemicals. This type of arrangement was McKinsey's standard recipe for large organizations. In the Shell case, however, it was not critical to the reorganization. Furthermore, the petrochemicals division continued to be subordinate to the oil division, at least for the time being.[22] The most pressing issue—how to combine the functional and regional reporting lines—was solved by establishing a number of regional coordinators alongside the functional

[20] Committee of Managing Directors (CMD), Personnel file, 19 Feb. 1959, Personnel, 1957–1962, files S12, SLA.

[21] Stephen Howarth and Joost Jonker, *A History of Royal Dutch Shell*, vol. 2: *Powering the Hydrocarbon Revolution* (Oxford, 2007), 137–39.

[22] Christopher D. McKenna, *The World's Newest Profession: Management Consulting in the Twentieth Century* (Cambridge, U.K., 2006), 176–81.

coordinators at the central offices in The Hague and London. The operating companies were accountable to the regional coordinators, who formed a vertical line from the managing directors to the managers of the operating companies. In contrast, the functional coordinators traced a horizontal (advisory) line to the managers of operating companies. The CMD oversaw both functional and regional coordinators. The matrix structure presumed that the coordinators consulted with each other before bringing plans to the CMD. Thus all plans were carefully weighed before being given to the CMD for consideration, which left the members more time to consider strategy.[23]

The application of a matrix structure to the Shell organization in 1959 was a logical response to a fragmented international economy, in which newly established nations were preoccupied with their own economic advancement. Shell tried to become part of the locales where its branches were established while maintaining a strong international character. In its annual report of 1969, the Group proudly pointed out that it employed people of sixty different nationalities worldwide, and that its central offices alone housed forty different nationalities. Foreign nationals had assumed positions in the core group of about five thousand expatriates.[24] Despite this variety, most expatriates in Shell were either Dutch or British. In 1960, Dutch and British expatriates made up 87 percent of the international staff; in 1970, the share was 78 percent.[25]

From the late 1960s on, the governments of oil-exporting countries began to push international oil companies for a greater share of the oil production in their countries. Particularly after the first oil crisis in 1973, relations between the two parties changed dramatically as national governments of oil-exporting countries stepped up their participation in oil concessions: from a modest 25 percent to 50 percent, they moved to 70 percent, or even to complete nationalization. For the time being, the international oil companies continued to be involved in the production and marketing of oil because they still had access to markets, but over time they became more dependent on national governments.[26] Shell produced oil and gas in many countries, including the United States, Venezuela (until 1975), Nigeria, Oman, Brunei, and its two home countries, Britain and the Netherlands.

The greater role that national governments began to play in their own oil industries led to a reduction in the vertical integration of the oil

[23] Howarth and Jonker, *Powering*, 140–48.

[24] *Royal Dutch Annual Report*, 1969, 14–15.

[25] Keetie Sluyterman, *A History of Royal Dutch Shell*, vol. 3: *Keeping Competitive in Turbulent Markets, 1973–2007* (Oxford, 2007), 265.

[26] Ibid., 31–35.

majors' activities. In reaction, Shell expected its downstream operations to act more independently and to take responsibility for their own profits. This change seemed to demand organizations that were less hierarchical and more organized from the bottom up. Moreover, employees were seen as important stakeholders in the company. Discussing the merits of diversification in the late 1960s, the CMD argued that a company had a life of its own, and that senior management had a mandate to manage shareholders' funds in a way that took into account the interests of employees and the community at large, as well as those of shareholders, who did not necessarily come first.[27] This outlook persisted through the 1970s. The CMD considered profits necessary for Shell companies to stay in business, but did not regard them as a goal in themselves: the company was working not only for its shareholders but also for all relevant stakeholders, including the national governments. Though their markets were international, the Shell operating companies were firmly integrated into the local economies. In the 1980s, this philosophy, as well as the firm's internal organization and staff policy, began to come under increasing pressure.

Shell's Response to Vocal Shareholders and Global Markets

The liberalization of financial markets and changes in national regulation of the financial sector during the 1980s, particularly in the United States, changed the relations between companies and their shareholders. Financial raiders in the United States demonstrated that they could, and would, make or break a company if management did not achieve the perceived maximum share price. These outsiders did not view a company as an entity that possessed its own personality, but saw it rather as a bundle of assets to be managed to the investors' best advantage. In the wake of the raiders' actions, shareholders became more critical of managers' performance. They were able to raise the decibel level of their complaints because shareholders were no longer a large, anonymous group of individuals, but were, in part, strong institutional investors, such as pension funds. Like most companies, Shell responded both by putting underperforming assets up for sale, including most of the assets it had acquired during its earlier diversification strategy, and by reorganizing in order to cut costs and reduce the number of employees. Unfortunately for the oil industry, shareholder pressures increased just as oil prices were going down, making it harder for management to please the shareholders.

[27] Minutes of the CMD, 4 May 1971, CMD files, DCS, S 65, SLA.

In 1986, oil prices collapsed and more cost-cutting became necessary. After a round of discussions with senior management, the committee of managing directors initially accepted the conclusion that the matrix structure was still the right structure for the company. This outcome was not entirely surprising, as the chairman, Lo van Wachem, passionately believed that devolved management responsibility should reside in the national operating companies. But local management had to proceed alongside unifying forces. The expatriate postings had always been important factors in creating unity.[28] Expatriation continued to serve two important goals: contributing to local assimilation, and enabling the establishment of a core group of managers who knew and could rely on each other.

From the mid-1960s on, Shell's Department of Planning had been calculating both political and general risks while assessing the traditional technical risks of their investment decisions. They projected scenarios that would enable them to gain an understanding of how contemporary forces worked and how they might play out in the future. Although these imagined scenarios did not predict an unknowable future, they resulted in several forecasts, each with its own internal logic. In the early 1990s, Shell's projections highlighted the likelihood of two important changes in world history. The collapse of the Soviet Empire brought to an end the international framework that had been in place since World War II. At the same time, planners anticipated that the world would recognize that authoritarian political regimes and centrally planned economies simply did not work. In the rich countries, as well as in Latin America and Asia, privatization and deregulation became the order of the day. Political liberalization went hand in hand with economic liberalization. Two years later, in 1994, the Shell planners concluded that the powerful forces of liberalization, globalization, 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. Their scenarios led them to conclude that the world had learned, in the 1990s, that the only alternative was to adapt to these powerful forces. Refusal to play the game was not an option according to Shell's vision, and the company's planners concluded: "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?"[29]

[28] Lo van Wachem, "Unity in Diversity: Organisation and People in Multinational Enterprises," paper presented at the German Society for Business Economics conference, Berlin, 13 Oct. 1992.

[29] Shell Global Scenarios, 1992–2020, and Global Scenarios, 1995–2020, internal Shell reports, SLA.

Pressed by the forces of liberalization, globalization, and technological change, the dynamics of business changed. New companies, in particular the Internet companies, showed double-digit growth. In addition, "low-cost, nimble-footed" new competitors like Enron had entered the arena. Was the Shell Group in tune with these developments? Cor Herkströter, who became the chairman of the CMD in 1993, had a view that was completely different from Van Wachem's. Like Van Wachem, he was a long-serving Shell employee, but, unlike him, Herkströter had a financial, rather than a technical background. He concluded that the internal organization needed to be overhauled. The managing directors set up a team to review the role of the central offices and once again enlisted the support of two McKinsey consultants. The team's first concern was that the services provided by the central offices, such as advising on new developments and evaluating investment proposals, were not always the ones that the businesses desired. The service providers were seen as dictating to the operating companies and charging excessively for their services.[30] The expectation was that eliminating some of Shell's organizational layers would reduce costs and make the organization more flexible and responsive to the market. But the globalization trend seemed to demand more drastic changes in the organization. Thus, operating companies would continue to be the "building blocks" of the Group, but they would be defined according to their type of business, instead of their nationality. The emphasis of the central offices would no longer be on the national and regional organization but would shift to five worldwide businesses (except in North America): exploration and production, oil products, chemicals, gas, and coal. The matrix structure was finally abolished. The financial pressures demanded a more efficient, cost-effective organization. In a globalizing world, the tradition of integrating with localities seemed less relevant, and information technology offered other ways for the central offices and local companies to communicate.

At the same time, relations between the company and its employees changed. No longer were employees treated as important stakeholders. Instead, they were seen as valuable people who might join the company for a shorter or longer time before moving on to employment elsewhere. To reduce overhead costs, the number of employees at central offices was to be reduced by 30 percent.[31] During the 1990s, the number of employees worldwide decreased from 137,000 in 1990 to 90,000 in 2000.[32] The company no longer guaranteed job security for

[30] Conference Minutes, 14 Dec. 1994, 11 Jan. 1995, 8 Feb. 1995, Service companies review and transformation, 1995–1997, SC 98, SHA, SLA.

[31] *Shell World* (Apr. 1995), 3.

[32] *RD Annual Reports*, 1990–2000.

all; instead it offered "innovative payment structures" to reward high-level performers and provided training to increase individuals' value on the labor market.[33] In Dutch society, performance-related payments for large numbers of employees formed a new element in labor relations. Other companies in the Netherlands followed a similar remuneration policy. Whereas in the previous decades, the income gap had narrowed, during the 1990s the opposite happened, and income disparity increased.[34]

While Shell's reorganization in the mid-1990s did not end the system of dependence on expatriates, it became more difficult to find employees willing to serve outside their own countries. The life of the expatriate lost some of its glamour when international travel became easy and more affordable. Moreover, spouses often wanted to pursue their own careers, and parents were more reluctant to send their children off to boarding schools. Although the easier communication made possible by the Internet might have been expected to reduce the importance of expatriates, Shell continued to make use of them. The company consistently tried to find ways of reducing the negative aspects of expatriation.[35] During the 1990s, the group of expatriates became more international. In 1988, only 26 percent of expatriates were not Dutch or British. In 2001 this number rose to 37 percent. The group also became more diverse in another respect: the number of female expatriate employees doubled from 4 percent to 8 percent (excluding Shell schoolteachers).[36]

By removing the regional structure during the mid-1990s, the company lost some of its former coherence as it broke the organization down into smaller divisions, with the result that people lower down in the organization were given more responsibilities. This led to some local successes, but it also produced some unsuccessful outcomes. For example, assigning decisions to local office holders in the section responsible for exploration and production discouraged risk-taking, because the risks were measured against the local budget, not against Shell's international budget. To counter the negative effects of fragmentation, the business sector introduced a new global business operating model in 2004 that standardized and simplified business procedures in order to facilitate learning and speed up action.[37] In addition, the global model made it easier to tackle huge, complicated, and expensive projects, the

[33] *RD Annual Report*, 1994.

[34] Willem Trommel en Romke van der Veen, *De herverdeelde samenleving: Ontwikkeling en herziening van de Nederlandse verzorgingsstaat* (Amsterdam, 1999), 271–73.

[35] "Outlook Expatriate Survey: Summary of Findings and Summary of Changes," *Shell World*, Feb. 1995, Shell Outpost Family Archive Centre.

[36] Regional and International Staffing Study (ca. 1989), Boxes HR, SLA; *Destinations* 21 (Dec. 2001).

[37] *Shell World* (July 2003): 19–21.

kinds of multibillion-dollar projects that only large integrated oil companies could undertake, such as the development of oil and gas resources off the coast of Sakhalin Island in Russia.[38] The changes enabled Shell to better profit from its size.

The oil-products section also changed its organizational structure in order to become more global. First, Shell set up a number of regional organizations, such as Shell Europe Oil Products. The formation of regional organizations made it easier to coordinate the closure of small refineries. Next, the regional organizations were integrated within one global organization. Part of globalization entailed streamlining the supply chain by standardizing processes and systems. Shell's retail organization had traditionally been embedded in the localities where the company operated, and the owners and operators of its service stations ran their businesses in different ways. In 2005 Shell calculated that it had around fifty different business models, so its goal became to reduce that number to four. This meant standardizing both the systems of pricing and the payment conditions. The number of information-technology applications for 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."[39]

Global rules were also tightened in the area of corporate social responsibility. In the early 1960s, Shell's CMD circulated memoranda among the senior executives that announced the Group's long-term aims and clarified some rules of behavior. In 1976, the CMD drew up a "statement of general business principles" that, after internal discussion, were presented by the regional coordinators to the local operating companies with the following recommendation: though there could be no modification of standards on such fundamentals as attitudes toward bribery and the integrity of accounting records, other principles were meant for guidance only, and could be "properly interpreted or expanded by operating management in accordance with their own judgment of their social responsibility as seen locally."[40] Over the years, Shell updated this statement to emphasize business controls and stress compliance with tighter rules and reporting requirements. The global presence of nongovernmental organizations, such as Greenpeace, Friends of the Earth, and Amnesty International, required a global response as well.[41] When Shell reissued its business principles in 1997, it included

[38] Jeroen van der Veer, "Shell's Strategy to Fuel the Future," paper presented at the IMD CEO Roundtable, Lausanne, 11 Nov. 2005.

[39] *Shell World* (May 2005): 10.

[40] Letter to 100-percent-owned Shell companies, from regional coordinators, PA 34, SLA.

[41] W. J. M. van Geneugten et al., *NGO's als nieuwe "toezichthouders" op de naleving van*

the right of the company to express support for fundamental human rights, and local exceptions to the company's rules were no longer necessary or acceptable.[42] A small, but telling, signal of the firm's greater global integration was the introduction of the European-styled Shell emblem to the American market in 2000. Until then, Shell Oil, the U.S. subsidiary, had displayed a slightly different, less abstract, version of the famous Shell emblem, the yellow shell.[43]

By introducing global business units and global systems, Shell was both responding to globalization and buttressing the processes it entailed. This development left less room for national variations. Moreover, investment decisions were made centrally at the level of global business units, while national considerations, such as safeguarding employment, became less salient. A greater role for shareholders, acceptance of more flexible labor relations, and adoption of performance-related pay were three elements that took shape within Shell's worldwide organization, including the Netherlands, representing a distinct change in Dutch labor relations during the 1990s.

An American Company Adapts to a Dutch Business Environment

In 1964, Consolidated Foods Corporation (CFC, later Sara Lee) came to the Netherlands after it had acquired Jonker Fris, a Dutch producer of canned fruit and vegetables. It was the American branded-food manufacturer's first full acquisition on the European continent. In 1972, CFC diversified into the personal-care business with the acquisition of Erdal (later renamed Intradal) in Amersfoort in the Netherlands. However, CFC's biggest and most successful acquisition at the time was its initial investment, in 1978, of the Dutch family firm Douwe Egberts (DE), located in Joure and Utrecht. DE was the largest coffee, tea, and tobacco manufacturer in the Netherlands, with affiliates in various European countries (e.g., Belgium, France, and Ireland) and total sales above one billion Dutch guilders.[44]

For more than two hundred years, DE had been run as a family business. At the end of the 1960s, however, the company decided that it had to change its organization and strategy in the face of the new economic reality represented by the European Common Market and Customs Union. DE managers thought that the biggest threat came from

[42] Memoranda, 12 Aug. 1994 and 27 May 1997, 190 Y, 881, Shell Archives, The Hague.
[43] *Shell News* (Nov. 1999), 6–9.
[44] Douwe Egberts, Koninklijke Tabaksfabriek-Koffiebranderijen-Theehandel B.V., *Annual Report*, 1977, 6.

the German family firm Johann Jacobs & Co., a coffee manufacturer located in Bremen. Because the two firms feared each other, they quickly reached an agreement to cooperate.[45] The German firm had a staff of three thousand and was comparable in size to DE. In 1968, the two jointly set up a holding company, Douwe Egberts International N.V. Their research activities were combined in D. E. J. Jacobs International N.V. Joint ventures were launched in the French and Danish markets. In 1971, McKinsey concluded in a report to DE's board that cooperation with Jacobs should lead to a full merger, which would enable the combined companies to realize a dominating position in the European market.[46] In addition, McKinsey pointed out that the new amalgamation would produce a strong base for further growth through acquisitions, diversification, and overseas expansion. In 1973, Douwe Egberts Jacobs AG set up its new headquarters in Zurich.

Nevertheless, a minority of the forty-two registered DE shareholders obstructed the planned merger. They objected both to its financial terms and to their position in the management of the new company. Between 1968 and 1972, DE's profitability had increased (from 17 percent to 23 percent), while Jacobs' return on equity had dropped.[47] Thereupon, DE acquired part of its own shares in order to compensate its shareholders. Two family members, however, still refused to sell their shares, effectively obstructing the merger.[48] After Jacobs issued an ultimatum, the project was called off, and the new headquarters in Zurich was dismantled.

In 1976, DE's newly appointed president, Leo van Dongen, who assumed that position after Johan Boost's withdrawal as chairman of the board, had to find a new partner and settle the impasse between the board, the supervisory board, and the shareholders' meeting. Van Dongen commissioned McKinsey to find an international partner willing to acquire a minority share of DE and to buy out shareholders, without sacrificing the company's Dutch character. There were several candidates from the food-and-beverage industry—Bols, Nabisco, and J. Lyons & Co., among others—but none wanted a minority interest: they all wanted control. Thereupon, Max Geldens, managing director of McKinsey in Amsterdam at the time, contacted his friend and young CEO of Consolidated Foods, John H. Bryan, in Chicago.[49] CFC was interested in estab-

[45] P. R. van der Zee, *Van Winkelnering tot Wereldmerk* (Utrecht, 1987), 239–40.

[46] McKinsey & Company Inc., *Memorandum aan E. D. de Jong*, 23 July 1971, Sara Lee Archive, Utrecht (SLAU).

[47] Douwe Egberts Annual Accounts, 1975, 5.

[48] Interviews with Albert Six, Corporate Secretary, Sara Lee International bv, in Utrecht, Dec. 2006–Apr. 2007.

[49] Anthony Fudge, *Consolidated Foods Corporation Douwe Egberts 1978/Sara Lee Corporation Sara Lee/DE 1998* (Hilversum, 1998), 11–13.

lishing a strong and profitable bridgehead in Europe; control was not an immediate issue, as the company had a highly decentralized organization at that time. CFC's total sales amounted to $2.4 billion, and it was searching for international expansion opportunities. Bryan himself came from an American family firm that had been acquired by CFC a few years before, an experience that enabled him to approach the Dutch family firm with great tact.

The cooperation agreement—it was never called an acquisition—was signed before the end of 1977.[50] However, the Dutch proposal stipulating that CFC would be allowed to acquire only a minority interest was not accepted by the Americans. In the interest of their shareholders, they needed more than 50 percent to consolidate the value of the Dutch subsidiary. The following compromise was reached: CFC was to gain a minority shareholding of 26 percent; another 39 percent was to be held by an independent trust that would control voting rights and issue nonvoting depository receipts of shares to CFC. In effect, CFC would acquire 65 percent of the financial interest in DE, and the Dutch would retain control. The other 35 percent of the shares would remain in the family's hands. The voting rights of the independent trust plus the family share ensured a Dutch majority. This time, the Dutch (family) shareholders, with the failed Jacobs merger fresh in their minds, consented to the deal. No less than 95 percent of the family shares was offered to CFC. Initially, in January 1978 65 percent was transferred to CFC, 20 percent went to a major Dutch insurance company Nationale Nederlanden, and 15 percent remained temporarily in the hands of the family.[51]

The legal structure created by Bryan and Van Dongen was exceptional, but it worked very well for more than twenty-five years. The role and responsibilities of the trust were laid out in a special memorandum as follows: in order to preserve the "identity, integrity, and Dutch character" of DE, the trustees, in their capacity as shareholders, must at no time propose to amend DE's articles of association in a manner that would cause DE to cease maintaining the framework of a "structure regime."[52] This legal regime regulated the board of supervisors' influence on Dutch companies. In addition, the trust was instructed always to determine its voting conduct at shareholders' meetings in a manner that would ensure that the chairman of the board of supervisors was a person

[50] *Deed of Contract Koninklijke Tabaksfabriek-Koffiebranderijen-Theehandel B.V. and Consolidated Foods Corporation*, 14 Nov. 1977, SLAU.

[51] Douwe Egberts, Koninklijke Tabaksfabriek-Koffiebranderijen-Theehandel B.V., *Annual Report*, 1977, 9.

[52] Memorandum on the role and responsibilities of the Stichting Administratiekantoor Douwe Egberts Consolidated and its Trustees, June 1977, 10, SLAU.

of Dutch nationality. The trust was also bound to ensure that a majority of the board members were Dutch.

This memorandum required that nine characteristics be considered by the trustees in making their decisions as shareholders and advisors. Two of these recommended characteristics aptly described the company's Dutch character. First, the beneficial pattern of relations that DE had established with Dutch employees, customers, and suppliers should be continued and even improved. Second, DE's notable contributions to the Dutch economy, employment levels, and balance of trade should be preserved.[53] As respected representatives of Dutch business and politics, the trustees applied these guidelines in a pragmatic way.[54] In twenty-five years, neither party—CFC (later Sara Lee) or DE—ever sought changes that the other opposed. A consensus among the top managers in Chicago and Utrecht regarding the interpretation of the contract was always maintained.[55]

Sara Lee's Arm's-Length Control

The Americans ran the Dutch business at arm's length for a long time. The Dutch character of DE was even preserved contractually. DE was seen as a potential center for international management, and the coffee business was highly profitable—the hands-off idea made sense at the time. The Americans anticipated having a great future with DE and, in due course, they acquired a greater economic interest in the Dutch business. In 1984, the firm's share capital increased to 93 percent, and between 1984 and 1988 CFC acquired the remaining 7 percent from the family. Meanwhile, CFC had changed its name to Sara Lee Corporation. In total, Sara Lee paid about one billion Dutch guilders for the acquisition of DE. Sara Lee's voting rights during that time increased to 41 percent. The majority of the voting rights (59 percent), however, were still deposited with the Dutch Trust. Although Sara Lee had acquired 100 percent of the economic ownership, DE was still not fully controlled from the Chicago headquarters. Although the portrayal of the acquisition as a merger or some kind of joint venture understated the case, it nevertheless reflected the Dutch views on takeovers at the time.

Meanwhile, in 1983 the Americans reorganized their Dutch businesses, combining Intradal, manufacturer of branded household and personal-care products, with DE. Although much smaller (five hundred

[53] Ibid., 10–11.

[54] For example, former Prime Minister Piet de Jong, president of the Board of DSM Wim Bogers, and president of the Board of Hoogovens Paul Justman Jacobs.

[55] Fudge, *Consolidated Foods Corporation*, 23.

employees), Intradal's president and chief executive officer, Cor Boonstra, was appointed chairman of DE in 1984. The cooperation agreement stipulated that the chairman be someone of Dutch nationality; however, Boonstra was also Sara Lee's representative in the Netherlands. In 1987, DE, with the full support of Sara Lee, acquired Akzo Consumenten Producten (ACP). With that acquisition—one of the largest ever for Sara Lee at the time (US$600 million)—the company improved its geographic distribution in Europe and diversified its product range. ACP was active outside the food sector, with a turnover of US$750 million and 3,600 workers employed in thirteen different European countries. In this way, DE became one of the ten largest industrial companies in the Netherlands, with 11,741 employees, 5,220 of whom worked in the Netherlands, and a turnover of more than US$2 billion. With the acquisitions in the Netherlands and other countries, Sara Lee had become one of the larger American multinationals: by 1987, Sara Lee's foreign assets amounted to more than 40 percent of its total assets.[56]

By 1986, Sara Lee had proposed changes in the cooperation agreement. After that year, the contract could not be changed without the agreement of both Sara Lee and DE. Nevertheless, as neither party felt that the proposals endangered the spirit of the contract, some changes were made. First, major investment decisions by DE would be submitted to Chicago. Second, an international holding-company structure would be introduced in due time. In 1989, DE was renamed Sara Lee/DE to emphasize the connection between the two companies. Concurrently, the Dutch company's singularity was underlined. Sara Lee/DE became an international holding that administered an important part of Sara Lee's international businesses outside the United States. This arrangement was in line with the international organization policies of many American companies, which preferred the multidivisional form in their home market but often merged their international activities to form one division.[57] Although Sara Lee had no product divisions in the Unites States, it used the divisional structure for its international operations.

Sara Lee's operations in the Netherlands were joined in a Dutch subholding company, Koninklijke Douwe Egberts B.V. As a consequence, DE's Dutch works-council sphere of influence was restricted to Dutch operations and no longer exerted any impact on its increasingly international activities. In the same year, Nicholas Kiwi, an Australian manufacturer and marketer of personal-care, household, and shoe products,

[56] Sara Lee Corporation, *Annual Report*, 1987.

[57] Luc-Jan S. Wolpert, "Management van organisatievernieuwing: Een analyse van de constructieprocessen van de business-unitvorming binnen Akzo (1987–1993)," PhD diss., Groningen, 2002, 15.

was brought into Sara Lee/DE. Sara Lee had acquired the Australian business four years earlier for US$300 million. With this acquisition, in combination with DE's takeover of its largest competitor on the Dutch coffee market, Van Nelle, the total turnover of the international holding in Utrecht increased to more than US$3 billion in 1989. At the time, Sara Lee/DE employed a staff of 16,618, of whom 6,575 worked in the Netherlands.[58]

DE's Final Integration with Sara Lee

During the 1990s, Sara Lee/DE was increasingly integrated with the American parent company. The international holding company was managed, like any company, by means of guidelines and control points. At the same time, however, John Bryan's policy of minimal visits by Sara Lee staff to Utrecht continued.[59] Policy coherence was guaranteed by an exchange of the top managers in the board of directors in Chicago and the supervisory board in Utrecht. In 1993, the Dutchman Boonstra was even appointed president and chief operating officer of Sara Lee, a position that placed him just under CEO Bryan. Just six months later, he resigned "for personal reasons." Newspapers reported that Boonstra's unbending management style had provoked disenchantment among his colleagues. Ironically, a Dutch manager—used to working in a business environment based on consensus and cooperation—had displeased American managers with his cost-cutting measures. At the beginning of 1994, Boonstra left Douwe Egberts to take on a position as board member of the Dutch electronics company Philips. Its chairman, Jan Timmer, hired Boonstra to implement a major reorganization.[60] Two years later, Boonstra succeeded Timmer as Philips' chairman. However, he stayed on the supervisory board of Sara Lee/DE in Utrecht during the 1990s.

In the Netherlands, Boonstra had introduced the doctrine of "making your own budget"—drawing up a plan and realizing it. This was one of his leading business principles, and it was directed to all who controlled budgets inside the company. In addition, new Dutch arrivals were trained for key positions in Chicago. In this way, Boonstra wanted to improve both formal and informal communication across the ocean.[61] His policy of sending financial reports to Chicago every month fit perfectly into the American business culture, where financial control played

[58] Sara Lee/DE NV, *Jaarverslag*, 1988/89.
[59] Fudge, *Consolidated Foods Corporation*, 37.
[60] Marcel Metze, *Let's Make Things Better* (Nijmegen, 1997) 94–102.
[61] Ibid., 39–41.

a key role.[62] The financial reporting system of the Dutch was so successful that it was copied by other global subsidiaries of Sara Lee and by other companies in the Netherlands.[63] Boonstra even introduced the system to Philips after he joined that company in 1994.[64]

A crucial difference between the Dutch and the Americans was in their attitudes toward incentives. In the 1970s and 1980s, Sara Lee operated a comprehensive system of performance-related rewards in America. In that period, however, it was not common for managers to be given incentives in the Dutch business system. During the late 1980s, the Americans convinced their Dutch colleagues that incentives could improve performance. Gradually during the 1990s, Sara Lee/DE introduced such schemes for its higher-echelon managers, rapidly making them part of its remuneration system in the Netherlands.[65]

In 1997, Sara Lee designed a new strategy called "deverticalization," which refers to an ongoing process whereby the company evaluated each of its businesses and calculated how they could achieve higher returns by reducing the assets. The company wanted to be faster to market with new products, "freed from the constraint of operating and owning the entire economic value chain."[66] It was reacting, like many multinationals, to two major developments. First, propelled by globalization, companies increased their international presence and moved from local to global brands to serve international markets. Second, companies quoted on stock exchanges were constantly pressed to improve shareholder value. Worldwide, Sara Lee divested whole divisions, companies, plants, and equipment. In 1998, Sara Lee/DE in the Netherlands sold its entire tobacco division to Imperial Tobacco Group PLC for more than $1 billion.

In 2000, Sara Lee's new CEO, Steven McMillan, announced that the company would focus its resources on fewer businesses and on more narrowly defined business segments. The strongly diversified conglomerate had to become a more streamlined company with a smaller number of stronger brands. Concurrently, Sara Lee's commitment to a decentralized operating structure, which had been so successful under CEO John Bryan, had to be adapted to a more centralized organization. Sara Lee set up three consumer packaged-goods divisions: food and beverages, intimates and underwear, and household products. Reducing costs, achieving economies of scale, and combining redundant

[62] Whitley, "How and Why are International Firms Different," 27–68.
[63] Interviews with Albert Six.
[64] Fudge, *Consolidated Foods Corporation*, 39.
[65] Ibid., 41.
[66] Sara Lee Corporation, *Annual Report*, 1998.

operations would be essential for Sara Lee's survival in a competitive global market.[67]

In 2002, the Dutch trust was discontinued, because it no longer fit into Sara Lee's centralized organization structure. The Dutch share in Sara Lee's foreign sales had decreased from 80 percent to 18 percent. According to the articles of association, the trust could be discontinued if both parties, Sara Lee's shareholders and the Dutch supervisory board, agreed to such a plan.[68] In 2003, Sara Lee/DE was renamed Sara Lee International BV. As an international management center, it ran Sara Lee's non-U.S. businesses, which had a turnover of $5 billion, amounting to 40 percent of the corporation's total turnover.[69]

In 2005, Sara Lee's new CEO, Brenda Barnes, announced that the company would dispose of approximately 40 percent of its businesses; as a result, its total sales dropped from US$20 to US$12 billion.[70] Various businesses were sold, including Sara Lee's direct sales, U.S. retail coffee, and European meat businesses. Sara Lee's branded apparel was split off and brought separately to the New York Stock Exchange under the label Hanesbrands Inc. Sara Lee began to concentrate on building strong brands in the food, beverage, and household and personal-care divisions.[71] In this way, Sara Lee fundamentally changed its organization. Centralization and integration, earlier announced in 2000 under McMillan, was now implemented in a short period of time. Sara Lee International's corporate-governance structure was completely changed. Its supervisory and management boards were discontinued, and the two CEOs of the coffee-and-tea and household-and-body-care divisions in Utrecht reported directly to Brenda Barnes, beginning in July 2007.[72] The American assumption of control that had begun gradually in 1978 was thus complete.

Conclusion

Although drawing conclusions on the basis of two case studies should be done cautiously, these examples nevertheless allow us to identify some general trends and to make a few observations. The history of Royal Dutch Shell reveals that there was a lively interaction between the company and the organization of the economy. Royal Dutch

[67] Sara Lee Corporation, *Annual Report*, 2000.
[68] Interviews with Albert Six.
[69] Sara Lee, *Annual Report*, 2002.
[70] Sara Lee, *Annual Report*, 2005.
[71] Sara Lee, *Annual Report*, 2006.
[72] Sara Lee, *Management Information: Plan tot herstructurering van Sara Lee International*, 20 Mar. 2007.

Shell adjusted itself to the fragmentation of markets during the interwar period and even encouraged the process by emphasizing national subsidiaries. In this way, Shell accommodated differences in national business systems. After World War II, international integration brought about through new institutions competed with the fragmentation that occurred during the period of the cold war and the end of colonial empires. Moreover, many governments' policies were concentrated on boosting the national economies. In these circumstances, Shell remained committed to its national organizations, relying on a group of expatriates to personally create coherence within its enterprise. The economic integration of Europe, growing pressure from financial markets, the information-technology revolution with the possibilities it offered for international connections, and the accompanying globalization all put pressure on Shell to end the "local fiefdoms" and create one worldwide company based on business sectors. After discussions and critical assessments during the 1980s, this process finally took place in the 1990s and, in turn, increased the globalizing trend. In this way, the multinational responded to economic globalization, and in turn reinforced global institution-building. By creating international systems, it acted as a catalyst for changes in local business systems. A larger role for shareholders, acceptance of more flexible labor relations, and the introduction of performance-related pay emerged as three main elements of change within Shell worldwide, including in the Netherlands.

Sara Lee's corporate internationalization strategy in the Netherlands was based on acquisitions. Acquisition of ownership and control took place in gradual stages. Majority economic ownership was achieved early, in 1977; however, full control was not secured until twenty-five years later. Meanwhile, Sara Lee, a company committed to the principle of decentralized management, shared control with its Dutch management, a Dutch supervisory board, and a special Dutch trust. The latter was established to control part of Sara Lee's voting rights as a means of preserving the "identity, integrity, and Dutch character" of DE. Nevertheless, during the 1980s and 1990s, DE was integrated in various stages into the parent company's strategy, although for a long time the Dutch subsidiary was managed from a distance. By the time Sara Lee became a centralized multidivisional organization after 2000, the singular Dutch legal construction had outlived itself, and the Dutch trust was abolished. Headquarters in Utrecht became a management center that ran Sara Lee's international businesses. During the 1990s, the Americans had convinced their Dutch colleagues that Sara Lee's numerous reward systems for motivating management to perform better had to be introduced in the Dutch subsidiary as well. As a result, a feature that had been rare in the Dutch business environment was gradually adopted.

Drawing on this new empirical research from the Netherlands, we reach a different conclusion than Doremus, Pauly, Reich, and Keller, who believe that multinationals continue to adopt the characteristics of their countries of origin. We also disagree with Whitley, who finds that multinationals from coordinated or liberal market economies are unlikely to develop new global institutions that will effect changes in national business systems. Our two case studies suggest that some multinational companies have adopted a more global orientation in response to the direction taken by the markets. Our findings therefore confirm the suggestion of Djelic and Quack that the present era is characterized by global institution-building. In addition, we agree with Mark Casson that companies create the necessary flexibility in the international business arena and thus are responsible for fundamental changes. According to Crouch, multinational companies, or their managers, can be seen as "institutional entrepreneurs" who create something new by recombining existing national institutions. So far, the influence of these companies in the Netherlands has produced a more liberal market economy, but we expect that, in response to the present financial crisis, multinationals might eventually support a more coordinated global market economy, just as they supported the coordinated market economy on a national level in the 1950s and 1960s.