Review Essay

Exxon: Transforming Energy, 1973–2005. *By Joseph A. Pratt with William E. Hale*. Austin: Dolph Briscoe Center for American History, The University of Texas, 2013. xxii + 638 pp. Photographs, maps, tables, appendix, notes, index. Cloth: $49.95. ISBN: 978-0-9766697-8-4.

Reviewed by Mira Wilkins

Four giant volumes (plus a companion one on Humble Oil) appeared between 1955 and 1988 on the history of Standard Oil Company (New Jersey) and its successor (as of 1972) Exxon Corporation. These well-documented volumes took the story to 1975. As related by the publisher and author of this book, about four years after the 1999 megamerger of Exxon and Mobil and the formation of ExxonMobil, the merged unit gave a collection of its historical files—containing some four million documents—to the Dolph Briscoe Center for American History (DBC) at the University of Texas at Austin. When the document transfer was made, in 2003, William Hale, a thirty-year Exxon/ExxonMobil manager (most recently in the public relations department) suggested that it was time for a fifth volume of Exxon history. ExxonMobil's top management approved, and in 2005 the DBC asked Joseph Pratt to write it. He agreed, and the book under review, which covers the period 1973 through the merger to 2005, was written by Pratt "with the assistance of William Hale" and published by DBC.

Pratt grew up in the Texas oil industry. A professor of history at the University of Houston, he has spent decades studying the industry—he knows thoroughly the world of oil. This book is considerably shorter than its predecessors. Pratt explains that his approach was different. Instead of the detail provided in the earlier volumes, he would give the broad overall picture, highlighting important features in the development of the company from 1973 to 2005. This is recent history, and Pratt interviewed some 110 Exxon executives. Their recollections shape the book, which is very much an insider's account. From Pratt's book, the reader gets a clear sense of the meaning of the phrase "corporate culture."

While Pratt's book was in press, the journalist Steve Coll published *Private Empire: ExxonMobil and American Power* (2012). Neither

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Coll nor Pratt acknowledges that the other's work was in process or that their studies overlapped, which they do (Pratt does cite Coll in one note on p. 504). Anyone who reads Pratt's volume should also read Coll's; both tell the story of Exxon/ExxonMobil, and both tell it well.

Pratt's book is divided into two parts. The first covers the 1970s to the mid- to late 1980s, during which time Exxon—run by engineers, cherishing the values of efficiency, low-cost production, pride in its technological expertise, and, as a consequence, high return on investments for its shareholders—found itself faced with "producer power" in the Middle East (and elsewhere), unpredictable prices, and a barrage of environmental requirements.

Pratt takes the reader through Exxon's experiences in Venezuela, Saudi Arabia, Libya, and Iran—in all of which Exxon had interests that were taken over by the countries' respective governments. While each case was different, all reflected the shift from the dominance of oil companies (including Exxon) to what Pratt calls producer power. Exxon's ownership of crude oil resources fell dramatically. Oil prices that had been relatively stable throughout the postwar years up to the early 1970s now seemed out of control. The company, which made long-term plans, was suddenly faced with price volatility that belied all of its forecasts. Adding to that, at home, Exxon was alarmed by new legislation, prompted by environmentalists' calls for clean air and a healthy environment. A cost-conscious company that emphasized its efficiency, it had not anticipated the supplemental costs required to meet the new regulations. High oil prices in the 1970s did bring high profits, but they also brought out company critics. In the early 1970s, there were long lines at U.S. gas stations and apparent shortages of oil—and many observers blamed the oil companies, particularly Exxon. Abroad and at home, the company felt "under siege."

The high prices of the 1970s had encouraged new oil developments outside the control of the Organization of the Petroleum Exporting Countries (OPEC). Exxon developed new technologies in offshore drilling (in the Gulf of Mexico and in the North Sea). Its new activities in Alaska grew. Pratt is excellent on the sharing of technology from one region to another and the adaptations; he is excellent on how fast the innovations came in drilling at greater depths. Yet, by the mid-1980s (or beyond) the search for new oil-producing properties did not compensate for the loss of properties taken over by OPEC countries. In 1985, Exxon's oil and gas production on a global scale was about one-quarter its output in 1973; in 1985 its two largest fields were in Prudhoe Bay (Alaska) and Groningen (the Netherlands) (pp. 164–65).

Pratt dates the second period of Exxon history to the mid- to late 1980s. The price slump of 1986 caught Exxon by surprise. It was

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"a disaster." Pratt describes the corporate response as that of going back to basics: "stick to core businesses, cut costs, practice financial discipline, stay on the leading edge of technology and use organizational innovations to improve overall performance" (p. 8). The diversification strategy of earlier years was abandoned. Clifton C. Gavin, who had been chairman and chief executive officer (CEO) since 1975, stepped down in 1986 (as planned), to be replaced by Larry Rawl (1987–1993) and Lee Raymond (1993–2005). The chief executive when this book was in progress was Rex Tillerson.

Pratt is good on the revisions in organizational design that took place after 1986—Exxon's creating of a better reporting structure. There was more than a change in strategy, top management, and management organization. There was the final end to the longstanding concessions in the Middle East (Exxon was not fully out of ownership of Aramco in Saudi Arabia until 1988), then there was the shock of the *Exxon Valdez* tanker's spill in Alaska (March 24, 1989). Exxon was a company that prided itself on doing things right, and this was not right. Pratt devotes about fifty pages to the *Exxon Valdez* accident.

Next came the management decision, announced in October 1989, to move from New York to Texas and to build a new headquarters in Irving, near Dallas. While the planning had begun before the *Exxon Valdez* oil spill, that incident only reinforced the decision. Exxon wanted to get out of New York, not only because all costs (including taxes) were high, but also because everything was political; the company wanted to get down to fundamentals. Its new management became very suspicious of outsiders, leading to a bit of a bunker mentality: the less publicity the better. It saw the old Exxon as one of bureaucracy. The new Exxon would reduce and cut through the corporate bureaucracy.

The fall of the Berlin Wall in 1989 marked the end of the Cold War, and soon after, opportunities opened for Exxon in Russia, Kazakhstan, and Azerbaijan. In the 1990s, twenty years after the nationalization of Exxon properties in Venezuela, the government of Venezuela and the national oil company, Petróleos de Venezuela, S.A. (PDVSA), sought to attract international oil companies to develop the heavy oil in the eastern part of the country. Exxon was cautious, but Mobil was attracted by the possibilities (and Mobil's properties would become part of ExxonMobil after the 1999 merger).

In the 1990s and early twenty-first century, to replace the lost Middle Eastern reserves, Exxon developed oil properties in West Africa, Chad, and Angola. Mobil also expanded in Africa. In many cases, "production sharing agreements" (PSAs) replaced the older concessions; alternatively, ownership arrangements were combined with

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sharing—joint ventures with state-owned oil companies. How these new arrangements evolved was complex. What was clear, however, was that producer-country government-owned oil companies became ever more deeply involved in the oil business.

Exxon recognized that it could not predict, much less control, oil prices. After the price bust of 1986, according to Pratt, the company sought to avoid "the uncertainties of projecting oil prices by using very low oil-price projections for planning . . . and count[ing] anything higher as a bonus" (p. 212). Exxon often found in less-developed countries what in the 1970s Raymond Vernon had identified as the "obsolescing bargain." Contracts made under one set of prices and conditions when emerging nations really needed the oil companies were rejected after investments were made and the producing country had the advantage.

Once Exxon moved to Texas, the company became very defensive. For a long while, its CEO, Raymond, refused to entertain the idea that climate change mattered. What was important was running a business efficiently, lowering costs, and getting good returns for shareholders. This required attention to management. Pratt is good on the way the firm evaluated employees, moved them from one locale to another, and set some on the path to senior management.

In 1999, Exxon merged with Mobil. While BP had started the merger fervor with its takeover of Amoco, and while BP's John Browne openly said he wanted size in order to handle global risks, Pratt informs us that size was not what pushed the ExxonMobil deal. Instead, Exxon was having difficulty slimming its organization, that is, cutting back for efficiency reasons. Combining the two giants would make such changes easier. Employment could be reduced, based on duplication; organizational changes were more obviously needed to avoid overlapping activities (p. 447).

After the merger, ExxonMobil adopted a functional managerial structure. The global upstream operations (exploration, development, production) and the downstream operations (refining and chemicals, as well as marketing) would be managed by function—as would research and development and public affairs. This had been a pattern that Raymond (and his predecessor, Rawl) had been pushing since the mid-1980s. For them, there were "basic principles of engineering efficiency" that should be pursued (p. 446).

ExxonMobil was a very different company in 2005 (the closing date for this volume) from what it had been at the start of the 1970s. In 1973, Exxon produced more than 12 percent of the world's oil (6.7 million barrels of crude oil and natural gas liquids daily). In 2005, ExxonMobil's output was roughly 3 percent of the world's oil (2.5 million barrels daily).

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In Pratt's rendering, this change was not by corporate choice; instead, it was the result of the rise of state-owned oil companies. These striking figures do not, however, reflect the vast span of the organization's new international activities, many brought in by Mobil. (Pratt notes that ExxonMobil's daily oil production figures have risen since 2005 [p. 498].)

So, too, ExxonMobil's refinery capacity in 2005 was less than that of Exxon alone in 1970. Exxon had closed old refineries with the view that profitability, not volume, was key to downstream investments (p. 419). Refining and marketing had not been sources of profits in the old (pre-1970s) scheme of things. Now they were evaluated separately for their profitability.

There was also a change in where business was done. In relative terms, Latin America became far less significant for ExxonMobil. In the early 1970s, Exxon still had active oil exploration and production in several Latin American countries; in 1970, about 22 percent of its refinery runs were in Latin America, and it had marketing operations in many Latin American nations. By 2005, oil production and exploration in Latin America were no longer interesting to ExxonMobil. Its refinery runs in Latin America had dropped to a mere 2 percent of its global refining, and as for marketing oil in Latin America, that function was a shadow of what it had formerly been. The bulk of its refinery runs were in ExxonMobil's largest markets: the United States (31 percent), Europe (29 percent), and Asia-Pacific (26 percent).

In the 1990s and early twenty-first century, Pratt tells us, there was "a dramatic shift of downstream operations to the fast growing markets of the Asia Pacific region" (p. 398). This trend had begun in the postwar period and accelerated over time. ExxonMobil made new investments in Hong Kong and Singapore—and then, after mainland China opened up, it made new investments there. (Pratt quickly covers Exxon's experiences in Japan, but does not, in my view, fit them well into the Asia-Pacific story.)

The figures on reduced oil production and refinery runs globally reflect a rather astounding statement by CEO Raymond, quoted by Pratt. Defending the new functional organization, as distinct from the regional and country approach, Raymond said, "It's inconvenient for a functional organization to have to recognize that there are countries that exist. And when you're doing business in a country, you have a lot of legal obligations . . . because of that country and you clearly have tax obligations" (p. 447). This statement is astounding because every large multinational enterprise with a long history knows about the differences from one nation to another. Yet, the problem for Raymond was in how to manage a worldwide organization for producing oil, gas, and

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chemicals—the fundamentals—while at the same time dealing with the "inconvenience" of contract negotiations in individual countries. How does a company increase profitability per barrel of oil controlled (p. 498)? How does it evaluate the efficiency and profitability of refineries?

Exxon and its successor, ExxonMobil, were large and conspicuous. Pratt explains that the public affairs department had a hard time with protesters on climate change and with new problems that came "with Mobil," including the critics that taunted the firm on human rights issues (in Indonesia and Equatorial Guinea) and in its relations with "local people" in Nigeria and Chad (p. 462).

This book should be required reading for every student of the oil industry. Pratt accomplishes what he set out to do, providing a snapshot of Exxon in the years from 1973 to 2005. This is an important story, and there is much here that is not available in the vast secondary literature on the oil industry in this period. Once I realized how much I was learning, I very much liked the book. Though the book ends in 2005, Pratt has built up a plausible picture of ExxonMobil that seems to linger on ten years later—i.e., to today—and explains a lot of what many of us knew about the company. As I was writing this review, ExxonMobil's current CEO, Tillerson, was pushing off environmentalists at the annual meeting (May 27, 2015), answering questions on why Exxon had not invested in renewable energy: "We chose not to lose money on purpose." Shareholders and ExxonMobil loyalists applauded. To this reviewer, Tillerson's response seemed a bit "tone deaf"—but fully understandable after I read Pratt's book. Exxon (and its successor ExxonMobil) is an oil company above and beyond all else. Its home in the heart of Texas reflects that.

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