The shortage of equipment, the shortage of personnel, and the lack of training were caused, it now appears, by deliberate policy decisions reached by the senior management of Exxon Corporation, who pushed strongly for cost reductions at Alyeska during the mid-1980s. These policy decisions were not taken arbitrarily. They were in response to a change in the basic economic conditions of the oil industry.

Oil prices fell from $32/barrel in 1981, at the height of the power of OPEC (Organization of Petroleum Exporting Countries) to $12/barrel in 1987, and then rose slightly to stabilize in the range of $15 to $20/barrel. The major oil companies are all vertically integrated, with divisions for the exploration, production, and refining of crude oil, and for the distribution and marketing of oil products. The lower price for crude oil brought exploration nearly to a halt, and severely reduced the profits that came from production.

The large vertically integrated oil companies reacted slowly to the changed economic conditions, but the reaction—when it came—was dramatic and harsh. Costs were reduced. Employees were discharged. The changes at Exxon were particularly dramatic because the company for years had prided itself on a generous, almost paternal attitude toward its employees. In January 1986 Mr. Clifton Garvin, chairman of Exxon Corporation since 1975, commented to *Fortune* magazine about personnel polices at the time that his company's selection as one of the 10 "most admired" firms with the United States.

Six months later, Exxon Corporation was in the midst of an extensive restructuring effort that would eventually change the company from one of the "most admired" to one of the most disliked:

> Exxon is giving workers until May 30 to decide whether to resign. If it doesn't get enough volunteers, it will resort to involuntary terminations. Based on Exxon's earlier announcement of a 26 percent budget cut, guesses on the final body count range from 15 percent to more than a third of all its employees. Analysts figure that the restructuring will provide Exxon with gains in efficiency and profitability, and that by conserving cash the company will be better able to buy oil properties if prices stay low. (*Business Week*, May 5, 1987, p. 32)[6]

The generous, almost paternal attitude of the company toward Exxon employees had disappeared. Nearly one-third of all of the company's workers, almost all of those over 50 years of age, were told they had to retire early or be fired:

> With oil companies cutting production in the face of falling crude oil prices and a hard-noised head chopper named Lawrence Rawl in the president's chair, at least part of Exxon's worldwide workforce of 145,000 seemed destined for the block. In late April, the world's largest oil company offered 40,500 employees the option to retire early or quit with compensation. (*Fortune*, May 16, 1986, p. 11)

The new chairman of Exxon, Mr. Lawrence Rawl, who replaced Mr. Clifton Garvin in the spring of 1986, apparently believed that he had been selected by the board of directors to reduce costs and increase earnings, despite the probable impact upon employee morale. Rawl made it clear that his main concern was the bottom line and his responsibility to shareholders. He didn't shy away from looking at waste and taking steps to eliminate it if it would improve profitability.[7]

The cutbacks in staff extended throughout Exxon to the Exxon Shipping Company—the 20-person crews on that company's oil tankers reportedly were to have been reduced to 15 persons had the accident not intervened—and to the Alyeska Pipeline Company:

> When oil prices began falling in 1981, the owners of Alyeska ordered it to save even more on costs. In late 1982, Alyeska managers prepared what they thought was a lean budget and presented it to a meeting of the owner's committee in San Francisco. According to former Alyeska officials who were briefed on the meeting at the time, committee members cited a figure, roughly $220 million, and asked if the budget was under that; told that it wasn't, they rejected it out of hand.
>
> "There was an overall attitude of petty cheapness that severely affect our ability to operate safely," recalls Mr. Woodle who came over from the Coast Guard to run the terminal's marine operations just in time to see their budget slashed by about a third. "I was shocked at the shabbiness of the operations." (*Wall Street Journal*, July 6, 1989, p. 1)[8]

Management of a Moral Company

The oil spill from the *Exxon Valdez* coated 750 miles of Alaska coastline. It severely impacted the livelihood of commercial fishermen, almost destroyed the food sources of native Indians, and resulted in the death of 40 percent of the bald eagles in Alaska, killed 80 percent of the sea otters in Prince William Sound, and eliminated 200,000 various species of birds along the coast. It also resulted in a $2.4 billion fine by the federal government, a $2.8 billion verdict in a civil trial, an additional claim of equal size by the indigenous peoples of the region, and a ruined reputation for the Exxon Corporation among the general public.

But, the Exxon Corporation did not change its pattern of operations. It appealed both the fine by the federal government and the penalty in the civil trial, contested the additional claim by the native Indians, and continued on its existing strategy of cost reductions and investment restrictions. The argument that the attorneys for Exxon made in their courtroom appearances, and the explanation that the spokespeople for Exxon expressed in their public announcements, was that Exxon should not be held responsible for the actions of company employees who so clearly violated company policies. That is, both Exxon groups admitted that Captain Hazelwood was intoxicated at the time of the accident, but claimed that company executives did not know that he tended to drink heavily while on shore and would have fired him had they known. This argument—that a company should not be held responsible for employee actions that violated company policies—did not gain much traction among those persons affected by the oil spill, but it

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[7] Fortune, April 14, 1986.

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