

# A detailed business report on shell nigeria business essay



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## **Petroleum History**

Most of the oil consumed today has moved from one country to another. It is the largest single commodity in the International market and the Petroleum industry is one of the largest industries in the world.

Petroleum is a fossil fuel because it was formed from the remains of tiny sea plants and animals that died millions of years ago. When the plants and animals died, they sank to the bottom of the oceans. They were buried thousands of feet below the sand and silt. As time elapsed and as the layers increased, this organic mixture was subjected to enormous pressure and heat. The mixture changed, breaking down into compounds made of hydrogen and carbon atoms called hydrocarbons. Finally, an oil-saturated rock-much like a wet household sponge was formed.

All organic material does not turn into oil. Certain geological conditions must be met within the oil-rich rocks. There must be a trap of non-porous rock that prevents the oil from seeping out, and a seal that keeps the oil from rising to the surface. Under these conditions, only two percent of the organic material is transformed into oil. (Parra, 2004)

### Shell Nigeria History

Shell Petroleum is one of world's leading producers of oil, gas and petrochemicals; Shell Oil Company has distinguished itself through its commitment to industry innovation. Its marketing expertise has enabled the company to compensate for its relatively low volume of crude oil production,

as compared to its strongest competitors, by selling an equivalent amount of gasoline nationwide.

Oil and gas operations began in Nigeria effectively in 1956, with the first commercial find in that year by the then Shell D'Arcy. By the 1960s growing environmental concerns led Shell to invest heavily in systems intended to reduce pollution and to conserve energy in its plants. In the following decade, the company began publishing a series of consumer-oriented booklets on such topics as car maintenance and energy conservation. Shell continued to dominate the Nigerian oil industry for long until Nigeria joined the Organization of Petroleum Exporting Countries (OPEC) in 1971, after which the country began to take a firmer control of its oil and gas resources, in line with the practice and rules of the other members of OPEC.

Within this period, many Multinational Oil Companies like Gulf Oil and Texaco (now ChevronTexaco), Elf Petroleum (now Total), Mobil (now ExxonMobil), and Agip, in addition to Shell, which was already playing a dominant role in the industry emerged. To date, the above companies constitute the players in Nigeria's oil industry, with Shell the major player accounting for a just little less than 50% of Nigeria's total daily production, which currently stands at about 2.4 million barrels of oil per day, (Socyberty, 2010). The company has delved into various businesses and these can be classified into three organizations namely upstream organization, the downstream organization and the projects and technology Organization,

## **Upstream Organization**

The Upstream organization explores for and extracts crude oil and natural gas, often in joint ventures with international and national oil companies. The organization also liquefies natural gas by cooling and selling it to customers. It also converts natural gas to liquids to provide cleaner burning fuels. It is also responsible for marketing and trading natural gas and power. It also develops wind power as a means to generate electricity.

## **Downstream**

The organization turn crude oil into a range of refined products, which are moved and marketed around the various states in Nigeria for domestic, industrial and transport use. These include fuels, lubricants and bitumen. The manufacturing business includes Refining, Supply and Distribution. Marketing includes the Retail, Business to Business, Lubricants and Alternative Energies and Carbon dioxide. The Chemicals business has dedicated Manufacturing and Marketing units of its own. It trades crude oil, oil products and petrochemicals primarily to optimize feedstock for the Manufacturing business and to supply the Marketing business. The Carbon dioxide organization is responsible for coordinating and driving Carbon dioxide management activities across the company.

## **Projects & Technology**

The organization provides technical services and technology capability in upstream and downstream activities. It manages the delivery of major projects and helps to improve performance across the company. It delivers differentiated technical information technology for Shell and drive research

and innovation to create tomorrow's technology solutions. Projects and Technology also houses Safety & Environment and Contracting & Procurement as these are integral to all Shell Petroleum's activities.

### External and Internal Environment of Shell Nigeria

All organizations should have the input from their external environment that in turn exchanges the product and services they produce in order to provide the energy for continued existence. " An organization needs to be able to manage its environment to survive in the current business environment by being constantly aware of development from its environment" (Tiernan et al 2006). All factors that are within other functions of their own firm are referred to as the internal environment. (Shell 2010)

### **External Environment**

Challenges facing many companies today originate outside them. A study of the external environment can spot major opportunities and threats.

Successful companies follow broad environmental trends and intermittently assess changes taking places in their industry. A company cannot in general control its broad environment. (Dess and Miller, 1993: 45)

### **PEST Analysis**

An organization environmental analysis should be continuous and feed all aspects of planning before beginning the marketing process. PEST analysis is a way of analyzing an organization's external environment. PEST means Political, Economical, Social, and Technology. These factors are beyond the

control and influence of a business but it is important to be aware of it when doing product development, strategy or business planning, (Rapidbi 2008).

Source: [http://www. HYPERLINK " http://www. learnmarketing. net/marketing. jpg" learnmarketing. net/marketing. jpg](http://www.learnmarketing.net/marketing.jpg)

## **PEST ANALYSIS ON SHELL NIGERIA**

### **Political factors**

#### **Wars and Conflicts**

#### **Government Policies**

#### **Militancy/Terrorism**

#### **Government Leadership**

#### **Government Structures.**

#### **Political Trends**

### **Economic factor**

#### **Home Economy Trends**

#### **General Taxation Issues.**

#### **Market and Trade Cycles**

#### **International Trade and Monetary Issues.**

#### **Job Growth/Unemployment**

#### **Interest and Exchange Rate**

#### **Internal Finance and Cash Flow**

### **Social factor**

#### **Consumer Buying Patterns.**

#### **Ethnic/Religious Factors.**

#### **Advertising and Publicity**

#### **Health/Living Standards**

#### **Brand company and Technology Image**

## **Consumer's attitude and opinions**

### **Media views**

### **Technological factor**

### **Research Funding**

### **Maturity of Technology**

### **Information and Communications**

### **Intellectual Property Issues**

### **Internet**

### **Transportation**

### **Software Changes**

### **Political Factors**

The political arena can increase or decrease a company's independence and make the environment unfriendly or supportive of its activities (Dess and Miller, 1993: 48). It has a huge influence upon the regulation of businesses, and the spending power of consumers. This relates to how government policies affect Shell Nigeria Petroleum's operation. Political factors such as Government policies, Political trends, and Government structures, militancy or terrorism have high impact on Shell Petroleum.

Rapid changes in Government policies have affected Shell Nigeria Petroleum. When a government comes to power, he condemns the planning work done by the previous government and brings in new policies that may or may not favor Shell Petroleum. Due to political instability, slow development occurs.



Militancy or terrorism has affected Shell Petroleum in Nigeria seriously. The militants in the Niger Delta where the main oil is situated also affect the production of oil by Shell petroleum highly. They are not supportive of the activities perpetrated by Shell. They are of the opinion that Shell Nigeria do not deserve to be there as there are no significant development in their areas despite large amounts of oil been gotten from the Niger Delta communities. As a result of these, the militants seize oil wells, kidnap expatriates for large amounts of money known ransom in return. They also blow up oil wells and even kill these expatriates. The militants want a percentage of what is gotten from the sale of oil from their community and as this has not been given to them or has been mismanaged by the top officials in the government, the militants go a long way to affect the daily production of Shell Petroleum in Nigeria.

## **Economic Factors**

The Economic factors of a state also have a high impact in the conduct of a company. The stability of the economy of a country determines how the consumers would be able to consume energy products. The overall state of the economy influences the performances and strategies of a company.

Nigeria's economy has undertaken several reforms over the past decade after years of political instability due to over-dependence on the oil sector. Since 2008 the government has begun showing the political will to implement the market-oriented reforms urged by the IMF, such as to modernize the banking system, to curb inflation by blocking excessive wage demands, and to resolve regional disputes over the distribution of earnings from the oil industry. In 2007-2009, GDP rose strongly thereby making it one

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of the growing economies in Africa. As at 2009, Nigeria's GDP stood at \$339 billion and the GDP official exchange rate stood at \$173. 4 billion (2009 estimate) and the GDP real growth rate is 6. 1% (2009 estimate). (Source: CIA World Fact, 2010)

As a result of this analysis, the economy situation of Nigeria has a high impact of Shell Petroleum Nigeria as it affects it positively. Unemployment rate In Nigeria stands at 4. 9% as at 2007 while the inflation rate stands at 12. 4% as at 2009, (Source: CIA World fact). This analysis has a slightly negative effect as the purchasing power of the customers would be reduced.

Constituents of Nigerian GDP in 2008

Source: StockmarketNigeria. com

## **Social Factors**

People's choices which include the beliefs, values and attitudes of society are affected by Social factors. Changes in the social factor of a country can impact purchasing behavior. Shell is aware of this social aspect and this can be shown due to the large number of customer buying Shell Petroleum related products. Oil spillage in the Niger Delta region of Nigeria is one of the health hazards caused by Shell Petroleum in Nigeria as they spill oil in the rivers making it impossible for people in this region to fish, which is one of their major occupations. Gas flaring is also one of the environmental hazards caused by Shell Petroleum but it already has plans to stop it by the end of 2011. The world population is increasing and social values are also changing so the demand of fuel consumption is also increasing.

## **Technology Factor**

Advances in technology have had a major impact on Shell Petroleum's success. Technological change impacts socio cultural attitudes. Due to the advancement in technology, Shell Nigeria Petroleum have a section of their organization that carries out technology related projects dedicatedly just to meet up with the current advancement in technology in the energy sector and better the life of its customers. The Shell Petroleum Project and Technology section deliver differentiated technical information technology for Shell Petroleum and drive research and innovation to create tomorrow's technology solutions. (Shell 2010)

## **Porter's Five Forces**

Porter 1980 stated that the competition state of an industry depends on five basic competitive forces. The combined strength of these forces establishes the final profit possible in the industry, where profit potential is précised in term of long run return on invested capital. Various industries differ in their ultimate profit potential as the collective strength of the forces differs. The forces include:

### **Bargaining power of buyers**

Shell petroleum has various brands of products from which a customer can choose from. It ranges from the lubricants to the natural gas. The power of the buyer is high because of these various range so g products that abound in Shell petroleum.

## **Bargaining power of suppliers**

Various suppliers of petroleum products also increase the strength of Shell petroleum because they mostly rely on Shell petroleum for the supply of petroleum products. The bargaining power of suppliers is high.

## **Competitive rivalry**

The petroleum sector is a competitive sector. Competition is high and fierce as there are many companies like Exxon Mobil, Total, and Agip. Shell petroleum has remained ahead of these companies because it has a strong brand name and it wields enough power and has strong influence in the oil sector due to its various quality brand products.

## **Threats of New Entrants**

It would be extremely difficult for new entrants to enter the petroleum market because Shell has created and established a strong image and brand name. The threats of new entrants are low because new entrants would face various barriers like:

They would need more time in making its brand known and etching it in the minds of existing customers of Shell petroleum who already like Shell Petroleum's product.

They would need more time and to break the monopoly of Shell

## **Threats of Substitutes**

Shell petroleum offer quality products to the Nigerian market. Quality products like the Shell Rimula and Mysella are products that would be difficult to substitute because the products have undergone much research

before it was introduced to the market. Before a product is released into the market, it is well developed by the various departments in its various sectors in the company therefore the threats of substitutes is low.

## **Internal Environment**

To exploit opportunities and minimize threats in the external environment, managers must analyze a firm's internal strengths and weaknesses. The most effective strategies are based on a thorough understanding of an organization's internal environment, (Dess and Miller, 2003: 74).

## **SWOT Analysis**

This is a tool that is used to analyze a company and its environment. SWOT analysis helps companies who aim for success channel its eyes on key issues as it's the first stage of planning. SWOT analysis is divided into two namely the Internal and the External factor. The Internal factor consists of Strengths and Weaknesses while the External factor consists of Opportunities and Threats from its competitors.

Source: [www.taoofstieb.blogspot.co](http://www.taoofstieb.blogspot.co)

## **SWOT ANALYSIS OF SHELL NIGERIA**

### **Strengths**

**Longevity in the market**

**More research**

**Strong performance in the market**

**Strong brand image**

**Product/Service Differentiation**

**Affecting the public positively**

### **Weaknesses**

**Gas flaring still in place**

**Oil spillage**

**violence still affects it**

**much focus on oil**

### **Opportunities**

**Discovery of new oil wells**

**Penetration into Danger zone**

**Embarking on new products**

**Rapid response to environmental criticisms**

### **Threats**

**Loss in profit as a result of fuel price**

**conflict and violence**

**competition from rivals**

## **High interest rate**

## **Global recession**

### **Strength**

Shell has been one of the major leaders in the oil and gas industry and has enough strength to perform in the oil and gas sector. It has its presence in over 72 countries (Shell 2010). As a result it has a strong brand image in Nigeria. It controls most of the oil wells in Nigeria.

Shell also embarks on new projects as they have a dedicated section of their services wholly committed to carrying out new projects to see how to better the lives of Nigerians and the world as a whole.

In Nigeria, Shell also organizes competitions like mathematics competitions and essays for students in secondary schools. Shell Nigeria also awards scholarships to undergraduates in Nigerian universities from the Niger Delta region as a way of aiding their studies. They also aid post graduate students from the Niger Delta to study either in Nigerian universities or abroad.

As one of the major leaders in the oil and gas sector, Shell Nigeria also has a range of excellent products that are supplied to different industries. They include Lubricants and Natural gas. Shell has various ranges of lubricants and motor oil which include:

Shell Rimula

Shell Mysella

Shell Tellus

## Shell Turbo

Shell also supply natural gas through pipelines to big firms that are situated in Lagos state, Ogun state, Abia state and they have a strong brand image.

## **Weakness**

Shell Nigeria still embarks on flaring of gas during extraction. They flare gas to remove unwanted bi-products. This process degrades the environment as it causes airborne diseases to the communities and also affects the ozone layer. Many of the people living in the Niger delta where Shell operates are fishermen and farmers by occupation but most of their lands and source of livelihood has been affected by Shell as a result of oil spillage. This affects the fishermen and the farmers as the fishes in the river dies and their farmland are destroyed.

Major focus on the oil and gas sector alone in Nigeria has made Shell not to search for and invest heavily into other sectors of the Nigerian economy like agriculture. Heavy dependence on the oil proceeds allows it to be exposed to stringent market conditions and as new companies are also emerging in the oil and gas sector, it puts it at a competitive disadvantage to its rivals who explore the other sectors of the Nigerian economy and not the oil and gas sector alone.

## **Opportunities**

Opportunities abound for Shell Petroleum in Nigeria. Oil wells are still being found in various places in Nigeria and as Shell is a major player in the oil and gas sector, it has taken over these wells. Shell has also been able to thrive in



the Niger delta area in Nigeria, a place where many oil companies are backing out from. In spite of the threats and violence coming from the militants, they have been able to win the heart of some of the militants.

The power industry has improved in Nigeria and as a result of this, Shell also has been able to embark on new products and introduce them to the Nigerian market. This includes products like the Shell Turbo.

## **Threats**

As a result of the issues facing Shell in the Niger delta region of Nigeria, Shell has been affected as some oil sites were collected from them according to a court ruling in Nigeria and handed to local owners. Shell operates in the large oil and gas sector, and as the oil and gas sector is rapidly increasing, there is intense competition from other oil and gas companies in Nigeria. These companies include Agip oil, ExxonMobil, Total.

Various conflicts in the Niger Delta also affect Shell Petroleum in Nigeria. Various militant groups kidnap expatriates and oil wells and ask for huge ransom. As a result of this, the company is affected greatly as they cough out huge money to secure their oil wells and protect their employees.

## **MOST Analysis**

Like SWOT analysis, MOST analysis is also a tool used to internally analyze the environment of a company. It defines the company through its Mission statement, its Objectives, its Strategy and the Tactics it plans to use in meeting these objectives.

## **Mission**

Shell Nigeria's mission statement is to enhance profitability through innovative management strategies while ensuring cost effectiveness and harnessing creative ideas. This mission statement is the reason for the existence of Shell. It strives to harness creative ideas by creating more innovative and effective ways of transforming energy to energy fit for human use.

## **Objectives**

Shell Nigeria has stated objectives that are intended for its operation. These objectives are essential points that it intends to meet so as to keep up with its mission. The objectives are to engage in oil and its product efficiently and to source for energy to meet customer's needs and the world's growing demand for energy. By meeting these objectives, the company intends to have an edge over its competitors.

## **Strategy**

Shell Nigeria has in place various strategies to make the company achieve its mission and set objectives. These strategies include career development, empowerment, and open door policy. The project and technology sector in the organization applies the needed factors in achieving these strategies. These strategies are long term strategies that have been set to benefit not only the end customers but also the economic state of the organization in return. It also has strategies in place for improving its existing products and also producing new ones.

## **Tactics**

Shell Nigeria has used various tactics to implement its mission, objectives and strategic mission. These tactics have helped the company have an edge over its competitors thereby making customers to continue to patronize them. These tactics include:

Free car servicing in every Shell petroleum filling station

Good shed for relaxing

Various promos intended to make the customer continue to patronize them

The variables in MOST analyses are indispensable and can be analyzed also from top to bottom. One cannot do without the other. They work hand in hand by driving each other until the organization is successful.

## **Organizational Structure**

For an organization to achieve its proposed aim, mission and vision, it needs to have a kind of structure in place that would enable it carry out these processes. There have been various definitions of what an organizational structure is by different academics but John Martin and Martin Fellenz (2010) defined an organizational structure as “ the formal arrangement of task, communication and authority relationships that influence and control how people coordinate and conduct their work” (John Martin and Martin Fellenz 2010: p336).

In the early 1990s, Shell operated using the matrix kind of structure. They comprised of four companies which include The Parent Companies, The

Group Holding Companies, The Service Company and The Operating Companies. The Committee of Managing Directors (CMD) managed the company. The committee of managing directors consists of five managing directors which includes the chairman, the vice chairman and three other managing directors. The president of the Royal Dutch Petroleum and the Managing Director of Shell rotated the chairmanship of the committee of managing directors. The committee's job was to provide a connection and linkage between the formal structures of the group and also the management structure of the group.

However in 1995, Shell Petroleum restructured the way it operated. It dismantled the matrix operating structure of the companies and produced four business organizations to attain a closer integration within each sector in every country where Shell Petroleum operates. The structure made each business effectively control and plan its operations well. The bureaucracy type of leadership that had been in operation was removed paving way for the structure to have enough strength to map out a defined role to the operating companies and business organization.

## **Organizational Strategy**

Strategy is an articulated desired direction of an organization that can be used by others to understand the organization (Linstead et al, 2009: 711). For Shell Nigeria, its strong drive to implement its strategy can be seen by the resulted developments in Nigeria and as a result of this drive and development, they retain their strong Image and name that they have both in Nigeria and the world as a whole. Shell Nigeria's main strategic features were:

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They embarked on a strategic future plan. Most of Shell Nigeria's competitors like Agip, Total embarked on a four or five year plan but Shell Nigeria embarked on a twenty year plan not because they wanted to have a forecast of what is going to happen within the twenty year period but because they imagined scenarios that would happen and wanted to have enough solutions to the scenarios. The solutions they provided would allow managers to consider various ways to strategically respond to any scenario that might unfold in the future, (shell 2010).

They also played a strategic role by having a strategic future plan where they would have enough facilities to develop organizational learning,

They also focused on the upcoming generational talents. They were not too focused on financial performance. Various ideas from different study department like mathematics, economics, and ecology were not thrown away by the Project department in Shell Nigeria instead they delved into it wholeheartedly so that their strong name would still be number one and their reputation would be retained .

They operate an open door policy which means that they welcome ideas and constructive criticisms from their employees and the general public. They have a listening ear by taking into significance the employees needs through various discussions with them either through councils or accepted trade unions.

They have various workforces from all walks of life which comprises of different skills, cultures, gender. These various workforces bring together

and share ideas that help Shell Nigeria in its quest to get more customers and understand them better.

They employ highly skilled, qualified and experienced workers and as a result of this, it offers great remuneration to its employees. Shell petroleum also reward outstanding employees with various bonuses like healthcare allowance, wardrobe allowance, house allowance. Shell petroleum also gives annual leaves and its entitlements. They also engage in maternity/paternity leaves and its entitlement. They also have a retirement plan for the elderly and experienced ones who have served the company for many years.

Various employees of Shell Nigeria who wish to further their careers more than their current state are wholly supported by Shell Nigeria through various schemes like scholarship schemes. Shell Nigeria on its own train its staff through various professional training and leadership programmes. They do this to instill and embed leadership and managerial values in their employees.

Shell Nigeria as a company embarks on various philanthropic projects just to better the lives of the people in Nigeria. Such empowerment programmes include various Scholarship schemes, various inter-school competitions, and various football tournaments. They also invest greatly in research and development. Shell is one of the largest investor in research and development and spends much on the exploration and expansion of technologies that would lead to the generation of more and pure energy with proficient products for its customers. (Shell. com, 2010)

Since the concept of strategy is based upon a company achieving its goals and objectives (Tony Morden, 2007: 184), Shell Nigeria has a dedicated focus to achieve it by applying the needed factors needed to achieve these strategies through their dedicated Projects and Technology Section of their organization that provides efficient services. By doing this Shell Nigeria now has a strong presence in the Nigeria oil and gas industry thereby overpowering its major competitors like Agip, Conoil.

## **Organizational Change**

Change management means applying measures and technologies to deal with changes in business surroundings and to profit from changing opportunities. The features of change include adapting to change, controlling change, and effecting change. Change has become an essential issue and characteristics of present-day companies and as a result of this, it poses a range of key challenges for all sort of organizations, whether private, public or voluntary, (Stephen Linstead et al, 2009: 619).

Various factors like management, policies and trends of the governments, complex organizational structure of a company, competition and threats from other companies, causes a company to change and the people largely responsible for change in an organization are the managers of that organization.

## **The Gagliardi Model of change**

The Gagliardi model of change was developed by Pasquale Gagliardi in 1986. The model describes that “ the primary strategy of an organization is the maintenance of its cultural identity in terms of prevailing values. A virtuous

circle from the collective experience of success through stabilized values to cohesion and efficiency sustains the continuity of culture. But if the alternatives allowed for by the culture are unsuited to new problems, then the virtuous circle becomes a vicious circle impeding change. The result may be apparent cultural change, cultural revolution or cultural incrementalism”, (Gagliardi 1986).

For Shell, change started as the result of the number of changes embarked by the world petroleum industry in the twentieth century but as at that time Shell didn't undergo any change because they had a stable management structure, a structure without an autocratic chief executive officer. Gagliardi (1986) stated that if the alternatives allowed for by the culture are unsuited to new problems, then the virtuous circle becomes a vicious circle impeding change, the result could be an apparent change in culture, cultural revolution or culture incrementalism but for Shell petroleum, it maintained its identity in terms of prevailing value that were in place majorly from its competitors because its structure was stable. Shell began lagging behind in terms of its financial statistics and because the financial statistics had features of reduced financial performance and bogus organizational structure, and because other companies in the oil industry had carried out organizational change and began to flourish, Shell set up an internal team in July 1994 that would study its internal structure and the team would in turn come up with plans on how to embark on a change that would be effective and improve and regain its strong brand image.

The motive behind the need for change in the company was the quest to have a structure that would be easy for the corporate center to exert  
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influence over the operating companies that would be effective and also the quest to improve coordination between the operating companies. The team embarked on its assignment and after much interview and sourcing of ideas, the team came up with various options for change by October 1994. They handed in a report to the Committee of Directors and spent days with the directors spotting out the objects of change. It was deliberated upon by the management and an announcement was passed to all employees in the company's employ. The management led by Cor Herkstroter, the chairman