

# Shell oil and its stakeholders in nigeria



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The environment in which most organizations exist is increasingly dynamic and turbulent,. Under-developing countries are competing to open up their market to attract more foreign direct investment (FDI) and this globalization trends spreads organisation worldwide, the impact of national culture on the organisation is becoming importance. Differences in national culture have a direct relationship on how the MNC need to mould its behavior/activities to meet the national need. Royal Dutch Shell Plc (Shell) is a British-Dutch group operating in energy and petrochemical sector; headquartered in Netherlands. Referring World-Bank 2011 reports Nigeria is the most populated country in Africa having a diverse 150 million-population. In our scenario Shell is coming from a low-context cultural (Brooks, 2009) background operating in a high-cultural context region. The oil-leak in the Bonga oil field in Dec-11; 120km offshore from Nigerian cost occurred during a boat hit the rubber pipe that carries the oil from the reservoir to the vessel. This event attracts immediate attention, Shell, Nigerian government and coastal Nigerian people and media all being a part of it apart from social activist and environmentalist groups. Though the contamination of the leaked oil did not reach Nigerian coast as Shell claims, contradictory claims made by local people stating the oil leakage devastates the coastal ecosystem and fishermen loses their job and environmentalists demand adverse effect on the environment,

This paper is based upon stakeholder theory (Freeman, 1984), argues that effective management requires the balanced consideration of and attention to the legitimate interests of all stakeholders, e. g. customers, employees, local communities, suppliers, distributors, and shareholder. It is argued that

an organisation's success can best be measured by returning the business benefits to all the stakeholders among whom it operates and maintain an optimal balance in that (Amadi and Abdullah, 2011). The term, Corporate Social Responsibility (CSR); determines the expected behavior of MNCs towards their commitments to society and responsibility of conducts towards the environment.

### Scope

Niger-delta region is the most oil-rich region in Nigeria and houses a wide variety of ethnic groups and eco-diversity zone, swamps, creeks, fish ponds. Nigeria since its independence in 1960 has experienced several military rules leading to instability, underdevelopment. Absence of healthcare, education and infrastructure associated with extreme poverty leads to a hostile environment for conducting business. Ethnic and religious diversity apart from the underdevelopment are the root cause of conflicts and the hostile environment, (Frynas, 1998). SPDC [Shell in Nigeria] which is operating in the region since 1937, despite of political instability and hostile environment SPDC continues to do good business in Nigeria. SPDC undertook several social initiatives to develop the situation of localites. We analyze such different programs initiated by Shell in Nigeria since 1960 until the 2011 GMoUs in the socio cultural context of Niger-delta. We would refer the incident in Ogoniland; where the Ogoni ethnic-group led by Ken Saro-Wiwa organized demonstrations against both the Federal Government and Oil MNCs demanding the needs for development and stop pollution of environment by the Oil companies in the region devastating the rich

ecological system. This resulted Shell to pull-out from its operation in Ogoniland, leaving behind its infrastructure.

## Objectives

Political instability and hostile environment, which is the situation in Nigeria, is generally considered a hindrance to conduct business which demands political stability. We aim to discuss the sustainable community development programmes taken by Shell in the context of political instability and analyze their effectiveness in improving the situation of Niger-delta region. We remember that Shell is only a portion of this, Federal government and other MNCs operating there has their role in this holistic process. Government has to embed local ethnic groups in this approach and lead it, with financial and other expert aid form MNCs.

We then explore aspects of political instability that have a direct impact on Shell's operations and those of other oil companies. An examination of three different perspectives on Shell' s activity, which forms the core of this paper, includes the Shell CEO, a local Nigerian SPDC employee and a Shell investor.

We analyze each of the initiatives taken by shell in this region and the participance of government and/or other MNCs in that and reason for failure and/or success of them. We examine the challenges faced by such initiatives and especially the GMOU approach, in the light of organisation culture (Brooks, 2009) of Shell, underdevelopment of the oil-rich Niger-delta and the hostility towards Shell and its properties in that region. We would also see that weaknesses of the older models lead to the need to newer ones. We analyze different leadership theories from the context of three different

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stakeholders - CEO, employee and investor. We argue that there is a limit to which such initiatives would improve the overall situation of the region without adequate support from Nigerian government in terms of ensuring law and order maintenance and enactment of policies- normalcy has to be regained for the MNCs to operate in the region. We would also analyze how the political instability impacts Shell business in Nigeria.

## **Introduction and discussion of Theories and Models from the Literature**

Response to articulation of the problem

The immediate spread of the news about the disaster brings damages to Shell image apart from long lasting ecological impact, seafood safety, endangering the ecosystem, contamination of underground water in Niger-delta. The social impact of this disaster multifold by the continuous media attention and sometimes over-estimated damage from the local people. Targeted attacks on Shell from media and social activist groups worsen the situation. From a local Shell employee perspective; we can discuss the initial trauma from his/her context is multi-fold- first his/her environment becomes contaminated and directly affected; next he/she being a Shell employee would become a targeted attack from hostile groups and in extreme situations like Ogoniland might lead him/her jobless. This leads to stress and reduced motivation. Technological disasters, like Bonga Oil field has an easily identifiable primary responsible party (Gill et al, 2012); here which was Shell and ths became an immediate attention of blame, anger, agitation and hostility leading to attack on its properties and staff. Media and government apart from others also form a part of this attack, as we seen in this case.

Similar situation we have observed during the BP Oil spill in 2010 in North America. Communication plays a key role in a cross-cultural context (Brooks, 2009). Due to cultural diversities the same message might be perceived differently by two different individual. Instead of seeing this as a specific event/accident it should have seen in the view of totality- universalism vs particularism (Brooks, 2009). Shell needed to pay attention in restricting the snowballing effect of media attention on the impact of the problem - though the oil not reach the Nigerian shore, Shell demands it restricted the spill 80 km away from the shore, but local people demanded the oil contamination has affected the coastal ecosystem and polluted their environment. True evaluation of actual impact and contamination of the rumor spreading was essential.

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As Shell CEO

Since 1990 oil-sector in Nigeria made a dramatic shift form joint-ventures towards production-sharing which seems more profitable for the organisation (Frynas, 1998) and for the government as government does not need to invest in exploration of oil-fields. At the same time this arrangement may bring negative impact on communities as government doesn't have much bargaining-power, this may lead to mismanagement of oil-revenue in the favor of MNCs. The absence of a stable civilian government also led to Shell to exploit the vulnerabilities and ignore the social responsibility, in a recent court hearing in The Hague Shell accused the law and order situation and sabotage prevented them to take proper maintenance of their infrastructure which led to oil-contamination in agricultural-land. We have to consider that <https://assignbuster.com/shell-oil-and-its-stakeholders-in-nigeria/>

such technical disasters would happen and attention to be given to address the situation and mitigation plans. Continuous meetings with communities and federal governments needed aiming to reach a consensus on the mitigating measures, participation from all stakeholders would be sought to address the problem from a holistic perspective. Shell would committed to protect its brand-value and all stakeholders interest and comply to all necessary controls and laws enforced.

As Shell Investor

An awareness of foreign cultural characteristics can help prepare a manager during his/her assignments overseas or for managing a widespread global team, in the similar situation Shell is in Nigeria. This cultural awareness potentially reduces cultural shock and improves interpersonal relations with stakeholders. Though SPDC employs huge volume of Nigerians but it carries a Western organisational culture this not fulfilling the stakeholder theory needs. This is evidenced by Shell's CA and CD initiatives which Shell imposed on the communities without any participation from them. Local managers need to be aware of socio-cultural context and only then it would improve the relationship with its all stakeholders and reduce hostility and targeted attacks on Shell. Shared-leadership (Jackson and Parry, 2008) is the main theme of the GMOU model where ethnic groups determine which project to take and Shell plays its role by providing technology and financial aids (Amadi and Abdullah, 2011). Shell would engage more GMOU which is a partnership among Shell and a group of communities, offering microcredit, healthcare, education, infrastructure development. The main difference of this approach against the CA and CD is the partnership with all stakeholders-

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ethnic groups, Federal government, other MNCs operating the domain and international organisation. The ethnic groups being part of the driving body and initiator of the projects feel the accountability and ownership of the project in their area. This reduces hostility and spreads the intention of Shell in sustainable community development. These efforts offer Shell to maintain the balance as indicated in the stakeholder theory between its stakeholders and itself. Referring to House's path-goal theory (Brooks, 2009) Shell's supportive and community's participative role together makes GMOU the most suitable model in this context. The GMOU module creates Intrapreneurs in the form of cluster development board (Amadi and Abdullah, 2011) which due to the engagement of the communities can bring the long lasting development in this region thus fulfilling both local people's needs and create a more favorable environment for MNCs.

As Shell employee

Though the GMOU model has introduced a radical change from the previous models in terms of partnering the communities and project achievements (Aaron, 2012), but the challenges remain the same- in the form of widespread poverty, corruption, lack of government enactment of law, sabotage and targeted attack. Corporate social responsibility more-or-less remains as a term in Shell policies but communities received little portion of the benefits in return of huge business originated from the Niger-delta. Shell's tendency of treating the oil-spills and related incidents as case based and too transactional approach to resolve them failed. Also the lack of maintenance of age-old oil-infrastructure and poor quality and environmental standards worsen the situation. Shell would have taken a transformational

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approach (Brooks, 2009) aiming at overall development and eradication of poverty and corruption in the region but a MNC alone can do that, event the GMOUs is not sufficient, government has to play its role here..

## **An Examination of the Various Approaches to Leadership**

Examination of various approaches

Freeman's Stakeholder theory, argues that society gives business the legitimacy, power and success and if organisation doesn't respect this in a responsible manner business is going to lose (Amadi and Abdullah, 2011); Shell has made huge profit from its business in Nigeria since 1937, despite the fact that it has taken several initiatives for social development, CA, CD and the recent GMOU, but society deemed this inadequate due to several reasons, lack of partnership is one of them. Transformational leaders (Brooks, 2009), who shares the vision and instills trust, pride and respect among the followers would be beneficial to manage the situation and consideration the national culture of Nigeria. Nigeria being a highly masculine society having high power difference and less individualism, plans could have been devised suiting the context, keeping in mind the highly individualistic culture of Shell origin (Netherlands) against the collectivism (Brooks, 2009) of Nigerian ethnic groups. Transformation leadership is more holistic, dynamic and hence would be more effective in this complex situation in Nigeria than the transactional model. A transactional leader, who poses the characteristics of inspiring, setting high expectations and using of symbols, would be beneficial in the context of Nigeria where symbolism is deep rooted in their social as well as religious life. Shell tried to take this a 'distinct' case and took the transactional approach which failed over time.

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The female leadership traits (Brooks, 2009) which Charismatic leaders symbolize; personal attention, considering individuals, would have been beneficial in this context. Shell needs at this time leadership to protect the Shell brand-value and reputation; at the same time inspire shared purpose among the ethnic groups and created commitment towards SCD and thus gaining trust among its stakeholders. Fiedler's Contingency theory (Brooks, 2009). In which leadership behavior interacts with the favorableness of a situation to determine effectiveness. We can argue in the context of our problem in Nigeria that this situation is unique and are more favorable than others and, as a consequence, require different behaviors.

What would I do in this case

Motivational theory (Jackson and Parry, 2008) is necessitated when the existing leadership fails to fulfill the several needs; examples being what should we be doing? the need for meaning and the need for safety (e. g. will we be OK if we do this?). Situation of oil-spill in Nigeria brought these questions to SPDC leadership to answer and act in very short timeframe. Stakeholders are individuals who construct leaders through the processes of attribution, projection, transference and idealization. Based on these constructions leaders are selected, and their influence is accepted. I would follow this approach to select the right leadership style for this situation- I would see this as a part of the holistic problem not just a particular situation. Keeping in mind the key reason of the failure of the CA ad CD approach I would have taken the bottom-up approach which created the responsibility and togetherness among the communities towards the SCD projects. The CA projects were more of an impromptu solution aiming to manage the

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immediate brand-value, whereas CD can be seen as more participative, well developed to address the most burning issues of the localities. Still it lacks the holistic approach all party engagement.

### Alternative resolutions

Referring to incidents in Ogoniland from where in 1993 Shell was forced to withdraw operation; considering the aftermath of alleged Shell involvement in the governments harsh way of curtailing down the agitation (Frynas, 1998) and considering the huge compensation that Shell had to pay in future no such engagement must be completely avoided. Usage of coercive power to persuade stakeholders [ethnic groups in this case who were protesting the environmental impact of Shell business in Ogoniland] wouldn't work in the context of Nigeria. Engaging in some sort of unethical activities is fatal and might lead to severe consequences to Shell brand-value globally.

Transformational approach with female leadership (Brooks, 2009) might be beneficial.

### Shell CEO

Leadership and it's style is important to international managers when they are operating in a different country (Brooks, 2009). Power-distance, bureaucracy and national culture plays key role here. As a Shell CEO I would exercise my legitimate power to persuade the stakeholders that the situation is under control and we are committed to our sustainable community development initiatives since many years. Using the information powerbase I would engage all stakeholders towards more GMOU projects to ensure overall development of the communities which would reduce hostility and

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targeted attack on Shell infrastructure. Using the expert powerbase we would assist federal agencies to build environmental policies to control and regulate the MNCs operation in this region is complaint. I would use motivation to my stakeholders – a Nigerian shell employee may be motivated by extrinsic rewards [pay hike, facilities], shareholder would be motivated by a dividend announcement. Local groups would be motivated by arranging continuous funds towards GMOU projects.

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Nigerian Shell-employee

As a Nigerian Shell employee my first motivation would be uncertainty avoidance (Brooks, 2009), keeping in mind the sabotage/hostile activities against Shell staff and property. My motivation would rewards – extrinsic rewards (Brooks, 2009) in the form of additional health facilities for my family, bonus, job-security; or intrinsic ones – the honor of being part of Shell which engages in many social development projects in my region. I would like SPDC management to use connection power to a) engage more GMOU initiatives which would improve the infrastructure of my localities thus reduces hostility, b) assist government to devise stringent policies/guidelines which the MNCs need to follow to conduct business in this area- thus safeguarding the environment and address pollution issues, c) ensure law and order in the region thus ensure hostility is restricted. I believe that GMOU in long term would ensure sustainable development in my region, because these SCD projects are now-a-days seen as core Shell practices and driven by the communities (Amadi and Abdullah, 2011) and the MNCs’

presence can improve the widespread poverty, corruption and underdevelopment.

### Shell Investor

Uncertainty avoidance (Brooks, 2009) would be the main aim of an investor because uncertainty and losing brand value of Shell would have a negative impact on my investments. Following the stakeholder theory we perceive manager as a social communicator/facilitator, employees as part of a flexible labor force who need communication and interaction and the region where we operate an inseparable part of our business, because if we do not maintain the balance with our environment we can't maintain our success. Complying to triple bottom line reporting (Jackson et al, 2011) aiming people, planet and profit. I would insist Shell to measure sustainability by economic environmental and social aspects. I would use the legitimate power to embed these in SPDC decision. Using connection and referent power I would encourage the GMOUs to attain success in reaching their goal in the holistic cooperation with government, communities and other MNCs.

## **Conclusions/Recommendations**

### Findings

We have seen that Shell, from its commitment towards the sustainable community development, took several initiatives since 1960 until 2011. Prior initiatives failed due to several reasons, which introduces the need of GMOU approach which until proves to become successful. We identified following deficiencies of the previous approaches which led to its failure -

Ownership

Transparency

Collaboration

Participation of local communities

Gender imbalance

Top-down development approach

We have also concluded that despite political instability and hostile environment Shell is eager to continue business in Nigeria; reason behind this could be

Inadequacy on the part of Federal Government to issues environmental and other policies to control Shell and other MNCs in his region brings an opportunity for MNCs to operate and perhaps exploit the areas.

MNCs providing excuse of the so-called hostile environment when it comes to compensation originated from their poor operation and maintenance.

High profit expectation from the oil-rich Niger-delta helps Shell continue to operate here

Analyze findings

In the previous section we have shown the root-causes of failure. Here we analyze each to determine how their combination led the previous CSD initiatives of Shell, towards failure in Nigeria

Ownership – all the previous models CA, CD, failed due to the fact that Shell decides which project to take and where to invest for development without any participation/consulting with local people. If Shell managers thought of setting up a school it was set, if he/she decides to set up hospital it was set without proper other arrangement which are needed to run the facility. Shell was also keen for quick-wins instead of sustained continuous development plans.

Transparency – previous models lacks accountability giving scope of abandoning the project in between and/or possible scope of financial fraud. Sometimes the need of a pilot project to do the feasibility study omitted by Shell citing reason of financials. GMOU imposes accountability, transparency. CA and CD were not considered as a core-business of Shell in Nigeria and hence it suffered from obvious priority causes and financial issue (Amadi and Abdullah, 2011). CA was characterized by Shell giving something to the communities whenever it feels so.

Collaboration – Shell paid attention to earn quick-results to maintain its goodwill and an operable situation, lack of the presence of a mainstream government led umbrella-initiative (Aaron, 2012) these sporadic initiative though having good interest and enthusiasm were bound to fail. The planning and implementation of the CA initiative was entirely done/controlled by Shell (Amadi and Abdullah, 2011) without any participation from communities.

Participation of local communities – in the early initiatives taken by Oil MNCs lack participation of government and local authorities, leading to scenario of

lack of a driver of continuous and sustainable growth (Aaron, 2012). Even if MNCs were keen despite government drive no such initiative achieves its desired result. CA, CD focus on traditional corporate culture restricts its ownership, impact and sustainability of results (Amadi and Abdullah, 2011). In some cases it can be argued that CA projects originates more agitation because one project [hospital or school] in one particular region might create enmity in some other region where this project was nto done.

Gender imbalance - most initiatives were male dominated and resulted almost no participation of female members from the locality. GMOU model ensures proper gender balance in the driving committee.

Top-down development approach - CA and CD initiatives were perceived by the ethnic groups as imposed (Amadi and Abdullah, 2011) on the community. The lack of participation from local people determined the fate of such initiatives at its very beginning. Dis-organisation has occurred as we seen in the CE's case whose approach towards organisation change though was well devised lack of communication and collaboration made him unsuccessful and his approach was seen by the stakeholders as CE's approach (Pye, 2005)

## Conclusions

Shell originating from a cultural background which demonstrates, Hall's low-context culture, where "What you say is what you mean" (Brooks, 2009, p290). Where as in Nigeria influenced traditionally by an extremely opposite culture; where relationships do matter and age/experience has unquestionable obedience. Charismatic leadership (Brooks, 2009) is more

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prone to success in such a scenario instead of a transaction leadership approach. High power distance is a characteristic in Nigeria on the contrary a leaner structure Shell poses. The deep-rooted values and fundamentals and taken-for-granted assumptions (Brooks, 2009) makes the difference when diverse cultures meet to conduct business. Through their professional activity, managers play an important role in society (Brooks, 2009), cultural intelligence is the term which leaders need to mould their plan in an environment apart from his/her own. Cultural intelligence in such scenario has a crucial role to play in MNCs operating worldwide in diverse regional cultures. Business does not occur in vacuum (Parry and Jackson, 2007) and organisation need to show interest to demonstrate that their corporate social responsible is not few nice words in their global mission but they also mean it. Triple bottom line reporting (Jackson et al, 2011) could be used to ensure organisation comply to its environment and committed to its all stakeholders, not only to shareholders.

### Recommendations

Ethics of leadership can be seen from three perspectives (Parry and Jackson, 2007) moral character, ethical values embedded in the mission, morality of the ethical processes in which organisation and stakeholders collaborate in a successful business. It demonstrates the importance of the assimilation of the cultural and ethical values into the business mission of a MNC in which region it operates. Political instability may be conducive for successful operation, though seeing the Shell continuous interest in doing business in Nigeria, originating from its profit-success, contradicts that argument (Frynas, 1998). In recent times developing countries, India and China;

attracts more and more foreign direct investment, organisation has to make careful decision. Managers appointed to these new regions should be culturally intelligent and pays careful attention and respect towards the national culture (Brooks, 2009) of their new business region. We can conclude that though MNC has its part to play when it comes to development; China is very strict in this aspect, MNCs need to spend certain portion of their earning for development initiatives; but overall governments need to ensure adequate infrastructure [e. g. transportation, electricity] is present and sufficient policies and law are present to enforce stringent environmental measures. Holistic development of the region should be driven by government with proper engagement with local people whereas companies need to play their role in profit-sharing.

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