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Shell in Nigeria

This case is based on published sources and was prepared by John Hendry on the basis of research by MBA students Funmi Ade-Ajayi, Zain Hak, Kate Mellor, Ken Singleton, Waldir Vieira and Yuan Zou. It is intended to provide a basis for class discussion and not to illustrate either effective or ineffective handling of an administrative situation.

The Royal Dutch/Shell Group is one of the world's largest corporate groupings and was until recently one of the most respected. During the 1990s, however, Shell has been the subject of strong and persistent criticisms from the media and from environmental and human rights groups. The great majority of these criticisms have concerned its operations in Nigeria. This case study reviews Shell's Nigerian operations in the 1990s, the accusations that have been levelled against the company, and some of the public and private responses of Shell staff to these accusations.

The Royal Dutch/Shell Group and its Nigerian operations

The Royal Dutch/Shell group of companies is the product of an alliance formed in 1907 between the Royal Dutch Petroleum Company of the Netherlands and the Shell Transport and Trading Company of Britain. In the early 1990s, when its troubles began, it was effectively the world's largest public company with revenues of well over US$100 billion. The governance structure of Shell is unusual, in that the two parent companies have retained their legal identities, so a prospective shareholder cannot buy shares in "Shell" but must instead buy shares in one or both of the constituent companies, Royal Dutch Petroleum and Shell Transport and Trading. In practice, however, the share prices of the two companies are effectively matched and the shares of both are listed on most of the world's major stock exchanges. The two listed companies themselves own the stock of three group holding companies: Shell Petroleum Company Ltd (UK), Shell Petroleum N.V. (the Netherlands) and Shell Petroleum Inc. (USA). Each of these is held 60% by the Dutch and 40% by the British parent. The group holding companies themselves own controlling stakes in about 270 separate operating companies in 130 countries world-wide (most of these are wholly owned subsidiaries, but in many developing countries there are also state-owned partners) and interests in around 1500 other companies.

The Shell group as a whole is run by an executive Committee of Managing Directors, comprising five executives appointed by the boards of the two listed companies. There is no single CEO. Management control over the operating subsidiaries was exercised, up until 1996, through a functional/regional matrix structure that had been devised by McKinsey in the 1950s. In 1996 this was replaced by a simpler, functional structure designed to focus attention on the core activities of the firm and speed up decision making. Throughout the 1990s, however, the operating companies enjoyed considerable freedom and autonomy, with head office involvement being restricted largely to long-range strategy and career management. From an operational perspective Shell was more like a federation of largely autonomous companies, linked primarily by their history and strong shared culture, than like a traditional multinational corporation.

Shell struck oil in the Niger Delta in 1958. By the 1990s it had about US$4 billion invested in Nigeria and was operationally responsible for half of the country's oil production – about one million barrels per day of some of the best quality crude in the world. Shell received only a small part of the billions of dollars of revenues from that production. Although the production company, Shell Petroleum Development Company (SPDC), was run as a Shell operation it's ownership structure was that a joint venture, with the state-owned Nigerian National Petroleum Company (NNPC) owning 55%, Shell 30% and two other oil companies, Elf and Agip, 10% and 5% respectively. Moreover SPDC did not receive the full benefit of the oil revenues, but only a production fee of US$5 per barrel, from which all operating and exploration costs had to be met. So given an oil price of, say, US$20 per barrel (a typical figure for the 1990s), the first US$15 went straight to the Nigerian government and the majority of what was left, after expenses, to the NNPC. The result of this was that in 1998, according to SPDC figures, Shell was making about US$0.70 per barrel or a contribution of about US$200 million a year to overall group profits of around US$6 billion.

The Nigerian context

Nigeria is a creation of the British Empire. It was until its independence in 1960 the largest British colony and is now the largest country in Africa with an estimated population of 115 million. An artificially constructed state, created by the British in 1914, it comprises over 250 separate ethnic groups. The dominant groups, comprising the majority of the population, are the Hausa peoples of the North (who have tended to secure the top political positions), the Yoruba of the Southwest and the Ibo of the Southeast. After independence, a six-year period of tension between these groups was followed by a bloody civil war and a prolonged period of military dictatorship, interspersed by a series of failed and usually short-lived attempts to return to civilian rule. One of these attempts, in 1993, ended rapidly with an annulment of the election results by the previous regime followed quickly by a new military coup and the installation of what is widely regarded as Nigeria's most corrupt and incompetent regime ever under General Sani Abacha. Over the next five years, the economy collapsed with dramatic increases in unemployment, widespread inflation, and the rapid deterioration of

what infrastructure it had. By 1996 per capita GDP had dropped from over US$500 in the mid-1980s to just US$240, making Nigeria the fifteenth poorest country in the world. These problems were exacerbated, for many, by the ethnic divisions within the country, which ensured that what wealth there was remained in the hands of the most powerful ethnic groups. Only after the death of Abacha in 1998 did democracy return with the election of a new President, Olusegun Obasanjo, with a clear majority, in the summer of 1999. But while Obasanjo's commitment to reform appeared to be genuine, and his period in office began with a strong crack down on corruption, no-one dared to predict how long it – or he – would last. He had, after all, been president once before, as a military dictator, in the 1970s.

One of the consequences of Nigeria's problems was that despite a massive inflow of oil revenues to the government (oil accounts for well over 90% of Nigeria's exports and about 80% of government revenue) the NNPC was persistently defaulting on its financial obligations to SPDC and the other operating companies. In 1993 and 1994 the government contributed just two thirds of its allocated share of investments. By 1998 the NNPC was US$1.75 billion behind with its contributions to the various operating companies.

A more general problem has been corruption. In both 1996 and 1997, Nigeria was named by Transparency International, an anti-corruption group that has developed an index of business corruption in 54 different countries, as the most corrupt place in the world to do business. Bribery and fraud are endemic, market relationships are subject to ethnic loyalties and networks and both government and business leaders routinely siphon off funds to personal bank accounts outside the country. The involvement of Nigerian businesses in drug smuggling and money laundering has grown strongly through the 1990s. No-one knows what percentage of government revenues find their way into private hands, but there is little doubt that the combination of corruption and inefficiency takes an enormous toll. For the oil companies there are also the ever-present problems of kidnap, ransom and sabotage, as deprived and disaffected minority communities vent their anger and frustration on the companies' property and staff.

The difficulties of working in Nigeria have also been exacerbated for the oil companies by the location of the oil. In the long term, some of the best reserves may be out to sea, but for the time being the focus of production remains, as it always has been, in the Delta region. The home of 500,000 Ogoni and more than twenty other ethnic minority groups (about 6 million people in all), this is one of the poorest regions of Nigeria and, in a country riven by ethnic tensions, its peoples have not only been systematically excluded from position of power but have also been actively victimised by the ruling members of the dominant ethnic groups. To what extent the people of the dominant tribes (as opposed to just their political leaders) have benefited from Nigeria's oil revenues is debatable: before its recent backsliding Nigeria clearly did experience a greater prosperity and development than most of its African neighbours. What is clear, though, is that the peoples who have suffered most from the social and environmental disruption caused by oil production are those who have benefited least from the resulting revenues.

The case for the prosecution: (1) Shell and the Ogoni

The flames of Shell are flames of Hell
We bask before their light

Nought for us to serve the blight
Of cursed neglect and cursed Shell
Ogoni song

The frustration felt by the Delta communities as they continued to bear all the environmental costs but receive none of the benefits of oil exploration and production built up during the 1980s and finally came to a head in the early 1990s. Urged on by the charismatic writer, intellectual and political activist, Ken Saro-Wiwa, the Ogoni elders in 1990 drew up an "Ogoni Bill of Rights", demanding political autonomy for the region and the right to control over, and a fair share of, its natural resources. Their primary quarrel was with the Nigerian government (and those who knew Saro-Wiwa say that in the early stages of his campaign he had no hostility towards Shell or the other oil companies), but as the largest of the oil producers in the region Shell was also implicated. In 1992, when persistent demands had still produced no response from either the government (which was as they had expected) or Shell (from whom they had hoped for better), Saro-Wiwa and his Movement for the Survival of the Ogoni People (MOSOP) began to raise the level of their protests and to focus their attention primarily on Shell operations. In October 1992, MOSOP mounted a major demonstration against Shell. The Nigerian Mobile Police Force were called in, 80 demonstrators were shot dead and hundreds of Ogoni homes were destroyed.

The following months were marked by a spate of well reported protests against Shell, with the causes of MOSOP and other local groups being taken up by Greenpeace and other environmental organisations. Some of the many accusations against Shell were as follows:

> *General living conditions***.** After 35 years of oil production the region was still without water, electricity or hospitals. Successive governments had reneged on their constitutional obligations to return 3% of oil revenues to the producing regions and despite its evident commercial power Shell had done nothing to remedy this. Shell's own spending on community development projects (about US$20 million a year) was derisory, and although SPDC employed nearly 4,000 staff only a handful of these were from the Delta region. (Even in 1998, Shell employed only 88 Ogoni.)
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> *Oil spills*. Independent figures suggest that about 40% of Shell's major oil spills occur in Nigeria. According to Shell's own figures for the 1990s there were on average four spills a week in the region in total, involving over 7,000 barrels of oil a year. Shell attributed over a quarter of these spills (and 60% of those in Ogoniland) to sabotage but admitted that 50% were due to pipeline corrosion, and 20% to operations. MOSOP claimed that the spillages were far higher and more numerous, but whatever the actual amounts there could be no doubt that the result was widespread contamination of land and rivers, which had a devastating effect on peoples dependent for their subsistence on fishing and farming.
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> *Pipeline runs***.** High-pressure pipelines passed over-ground through villages, often just feet from people's homes. Despite Shell assurances that pipelines would be re-routed when communities moved into vicinity (and the damage to

the environment through oil spills meant that the Delta communities had continually to relocate), this didn't happen in practice.

Double standards and delayed repairs. Given the age of Shell's Nigerian pipelines, the degree of corrosion and the fact that even when sound they fell far short of contemporary standards, in construction, in routing and in their being laid overground rather than deeply buried, they would long ago have been replaced in a developed country. In Nigeria, however, Shell seemed to have no intention of replacing and upgrading its pipelines. Even when new pipelines were laid, the environmental standards applied were, said Shell's critics, far lower than they would have been in a more developed country. Moreover, when leaks did arise, Shell was accused of taking far too long to repair them: in one case reported in 1993 a significant leakage was not repaired for 40 days.

Inadequate cleanup. When Shell cleaned up its oil spills, it was accused of using the cheapest and crudest methods available: it just burnt off the crude, leaving a permanent layer of crusted oil, or buried it in the ground, from which it seeped during the frequent rains.

Gas flaring. Apart from oil spills, the main focus of the protests against Shell was gas flaring. Many gas flares were located close to villages and had been flaring non-stop for over 30 years, releasing vast quantities of CO2 and methane and resulting in acid rain and soot deposits leading to lung diseases and polluted water. As with the pipelines, the issue of location in an area with a mobile population was contentious, with Shell claiming that the flares were originally well away from populated areas and would be relocated as necessary, while the Ogoni claimed that such relocations never happened.

The issues noted above are not exhaustive. Shell was also accused during this period of damaging homes through seismic testing, of laying new pipelines through Ogoni crop fields, and of refusing to pay damages after oil spills. Already by early 1993 the effects of the protests and of the sabotage and intimidation that often accompanied them had grown so severe that Shell was forced to cease production in Ogoniland, but this made little difference. In terms of actual production, Ogoniland accounted for only 3% of Shell's output in the Delta region. The problems arose mainly from oil transit and gas flaring, and these continued unabated.

The case for the prosecution: (2) The Saro-Wiwa affair

By 1993, Shell were caught in a vicious circle. As the hostility of the Ogoni grew, sabotage attempts and attacks on company staff and property increased. It became harder and harder to carry out pipeline repairs and other essential maintenance in the region, so the cause for complaints increased. Moreover, as the tensions between Shell and the Ogoni increased, so

did the often brutal involvement of the Nigerian military. Whether they were supposed to be protecting Shell or the government's own interests as majority partners in SPDC and the primary recipient of oil revenues was always unclear, but the consequences of their actions were only too clear. Large anti-Shell protests in the first few months of 1993 were followed by attacks on Ogoni villages with homes and schools destroyed, thousands of people beaten or detained and hundreds summarily executed. By 1994 it was estimated that 1,000 Ogoni had been killed. The Nigerian government claimed that it was quelling outbreaks of violence between the Ogoni and neighbouring peoples, and Shell publicly went along with this. But the Ogoni denied any such conflict and subsequent investigations found no evidence of any ethnic clashes. MOSOP claimed that the military intervention was at the request of Shell, in order to intimidate the locals and stop them protesting, but there is no clear evidence of any Shell involvement.

In May 1994, Ken Saro-Wiwa and other MOSOP leaders were arrested and charged with the murder of four more moderate Ogoni leaders. Hardly anybody outside Nigeria believed the charges, especially as Saro-Wiwa was publicly committed to non-violence, but in October 1995, after a flawed trial in which no credible evidence was produced against them, Saro-Wiwa and eight of his colleagues were found guilty of incitement to murder and sentenced to death. The following month, despite widespread international outrage, they were hanged.

Shell's approach to the Saro-Wiwa trial was to keep out of it, arguing that it was not their business to interfere in the legal affairs of a country in which they operated. When the sentence was announced they put in a plea to the Nigerian President, General Abacha, for clemency on humanitarian grounds, but they did nothing to challenge the propriety of the legal process, and brought no pressure on the Nigerian government to drop the charges or commute the sentence. Indeed they implied, if they did not actually say, that they had faith in the legal process. For this lack of involvement (and, people argued, tacit support of the Nigerian government), they were condemned not only by their old adversaries, Greenpeace, but also by the well respected internal human rights agency, Amnesty International. Surely, it was argued, they could have brought some influence to bear on this corrupt regime and blatant miscarriage of justice. And if they could not, then they should not be operating in Nigeria at all.

The case for the prosecution: (3) Continuing concerns

Since the execution of Saro-Wiwa, Shell's problems in Nigeria have continued almost unabated. A few days after the execution, they announced a new joint venture with the Nigerian government in a liquefied gas project. The timing was accidental, and the long-term effect of the project would almost certainly be very positive for the Delta peoples, as it would significantly reduce the gas flaring for which they Shell been so strongly criticised. But announcing a new co-operation with the Nigerian regime at that time, and the 'business-as-usual' message it sent, inevitably exposed them to further criticism. Having argued for years that Shell should clean up its environmental act, Greenpeace, for example, now demanded that it pull out of Nigeria altogether.

Two months later, as another 19 of Saro-Wiwa's associates came up for trial in a Special Civil Disturbances Tribunal (and faced the prospect, like him, of a summary death sentence and no right of appeal), Shell committed themselves publicly to the principle of fair trials. A few months later they came close to admitting that the Saro-Wiwa trial may have been flawed, but they continued to argue the case for non-interference, and to be criticised for this.

Around the same time, the group also came under criticism on environmental grounds from one of its former managers. Bopp van Dessel had been head of Environmental Studies in SPDC but had resigned from the company in 1994 on the grounds that it was not maintaining minimum international standards and was indeed violating Shell's own group environmental standards in the Delta region. In 1996 he aired his grievances on a UK television documentary: "They were not meeting their own standards. They were not meeting international standards. Any Shell site I saw [in Nigeria] was polluted. Any terminal I saw was polluted." In particular, he argued, the continued existence of over-ground pipelines, the crude methods used to deal with oil spills and the continuation of gas flaring were all unacceptable. The proposed liquid natural gas project was welcome, but was too little too late, for even by 2005 it would still only cut gas flaring by less than 50%.

By1999, Shell had doubled its community spending to about US$40 million a year, the liquefied gas project was under development and SPDC had made some significant investments in pipeline upgrading. But many of the old pipeline problems remained, it had done nothing significant to clean up the Delta area, and it still faced a constant flow of protests from both local communities and international organisations such as Greenpeace and the World Council of Churches. Since Saro-Wiwa's execution, there had been a constant flow of accusations by Ogoni activists of direct Shell involvement in the funding and operations of the military forces deployed in Ogoniland and in the arrest and trial of Saro-Wiwa and his associates. In 1998 it was reported that some of the witnesses at Saro-Wiwa's trial claimed to have been bribed by Shell to give false testimony. For the company's managers, sabotage and kidnap were still major problems, with the former often linked to oil theft or claims for compensation. SPDC had still not resumed production in Ogoniland.

The case for the defence

In defending the position and actions of SPDC in Nigeria, the operating company and the Shell group have used a range of arguments.

Against the complaint that oil revenues are not reinvested in the Delta region, Shell and SPDC have argued that this is the concern and responsibility of the Nigerian government, and not of the oil companies. Shell's public statements make much of the US$20-40 million a year they have invested, quite voluntarily, in community projects (for housing, water supplied, education and so forth). They have been doing this, it is implied, out of the kindness of their hearts, and under no moral obligations whatsoever. The government may not have been doing its share, but Shell have been doing more than theirs.

Against the accusations of environmental damage, the principal Shell and SPDC argument has been that much of the damage attributed to them is not in fact their fault. A high

proportion of the oil spills (60% in Ogoniland) are, they claim, the result of sabotage, sometimes due to sheer vandalism but more often linked with the attempted theft of oil or with subsequent claims for cash damages. As already noted, the facts here are disputed and could probably not be determined with confidence. In a recent event, in 1998, Delta villagers gathered to draw oil from a leaking pipeline, just as one might draw water from a well. (What else, indeed, would they do, faced with chronic shortages of fuel and oil pouring out to waste?) An explosion and fire killed over 700 of them. The original leak was attributed by the oil company to vandalism, but how could anybody be sure? Problems of river pollution and declining land fertility and fish stocks, attributed by the Ogoni entirely to oil and gas pollution, have been attributed by Shell and SPDC in large part to other causes, such as damming up-river and depletion due to deforestation, mis-management and over-farming by a growing population. Shell do not deny that they pollute, but they strongly contest the extent of that pollution.

Shell have also argued that they have been the victims both of changing international standards and expectations and of inappropriate expectations of environmental standards in the Nigerian context. While denying the application of "double standards" – and while insisting that extensive environmental impact assessments are carried out in respect of all their Nigerian operations, though none have ever been made public – they have cited the 1992 Rio Declaration to the effect that

> Environmental standards, management objectives and priorities should reflect the environmental context to which they apply. Standards applied by some countries may be inappropriate and of unwarranted economic social cost to other countries, in particular developing countries.

Shell have pointed out, moreover, that their pipelines and gas flares were considered quite acceptable when they were installed, and that while standards have changed since they can only be expected to respond at a certain rate. They regularly point out too that maintenance, repair and improvement works are made massively more difficult, dangerous and expensive by the hostility of the local communities. If they do not correct things as fast as the Ogoni would like, that is very largely the Ogoni's fault.

In defending their position internationally, Shell point to their minority stake in SPDC, and to the independence of the Shell operating companies. The main argument here is that however much the Shell group may wish to invest SPDC resources in the Delta region, they cannot do so without the agreement of the Nigerian NNPC. And even if the NNPC supported their wishes, they could not enact them without the Nigerian government paying out its share of the cash. (A subsidiary argument around governance structures was also used by the American and Canadian Shell operating companies when Shell came under threat of a boycott. In public disclaimers these companies argued they did not use Nigerian oil and had no equity stake themselves in the Nigerian operating company, so it would be "unfair" of North American consumers to boycott their products for something over which they had no control.)

Under attack for their position on the Saro-Wiwa affair, the main argument used by Shell was that they had no right to interfere in the legal or judicial processes of a sovereign state:

> This would be dangerous and wrong. Ken Saro-Wiwa and his co-defendants were accused of a criminal offence. A commercial organisation like Shell cannot and must never interfere with the legal processes of any sovereign state. Those who call on us to do so might well be the first to criticise in any situation where that intervention did not suit their agenda.

Nor should Shell interfere in Nigerian politics: "Politics is the business of governments and politicians. The world where companies use their economic influence to prop up or bring down governments would be a frightening and bleak one indeed."

Nor would it do any good if Shell pulled out of Nigeria, or of future projects. If they pulled out of the liquefied natural gas project, they argued, the effect would be the cancellation of the project, the loss of thousands of potential jobs and the indefinite continuation of gas flaring. If they pulled out of Nigeria altogether, things could only get worse, as the existing installations deteriorated:

> The oil would certainly continue flowing. The business would continue operating. … But the sound and ethical business practices synonymous with Shell, the environmental investment [by which they meant the gradual up-grading of pipelines], and the tens of millions of dollars spent on community programmes would all be lost.

Finally, Shell have strongly and repeatedly rejected all accusations that they condoned the actions of or in any way funded or colluded with the Nigerian military.

The management dimension

As the accusations flowed thick and fast, especially in the months following Saro-Wiwa's execution, the Shell top management in London and The Hague appear from interviews to have been genuinely puzzled and perplexed. Their own image of the Shell group was of an organisation of the highest moral integrity and standards. Shell was, in their view, not only the most responsible of the all the major oil companies but also one of the world's most responsible business organisations. Under pressure from a Greenpeace led media campaign and consumer boycotts in Northern Europe, they had already been forced in 1995 to back down from their proposals for the dumping of the massive Brent Spar oil platform in the North Sea, even though this had been clearly established as the least environmentally damaging of the decommissioning options. In the Nigerian case, too, they felt victimised, caught in the middle of a problem that was not of their own making.

On the ground in Nigeria, the person who had to handle the problems on a day-to-day basis was Brian Alexander, a career Shell manager who had been born and brought up in Nigeria when it was still a British colony and who from 1994 to 1999 was the managing director (CEO) of SPDC. From Anderson's perspective the situation could not just be treated as a public relations battle, but posed very real, and very difficult, management problems.

At the operational level, Anderson faced two problems: how to deal with the never-ending run of kidnappings and intimidation and with the constant sabotage of Shell pipelines; and how to balance the social and environmental arguments used by Shell's critics against commercial economic priorities.

The first of these seemed well nigh impossible to solve. To rely on military protection from the Nigerian government was to invite accusations of collusion with and support of brutality. And despite the government's protestations to the contrary, there could be little doubt that the armed militia called in on such occasions would use them as an excuse to wage their own ethnic and political battles. But in a climate of kidnapping, intimidation and violence against its staff, how could SPDC operate without government protection? For operate it must. If pipelines were sabotaged (or, for that matter, if they leaked through corrosion) they couldn't just be left un-repaired, spewing out their oil on to the land. On safety, environmental and indeed commercial grounds they had to be repaired. The installations had to be maintained. The staff involved in that maintenance had to be protected. And that meant reliance on government protection.

The most positive way forward, of course, would have been to repair relationships with the Ogoni, but how could that possibly be achieved? Shell were already more proactive in their community involvement and were already committing more resources to community projects than any of the other oil companies in the region, but dialogue seemed impossible and there was no apparent way out of the vicious circle of ever-growing hostility. The Ogoni attacked the Shell installations. Shell had to repair these, and to use military protection for that. The militia, citing the defence of Shell, attacked and killed the Ogoni. Moreover, given the established ways of doing business in Nigeria, any attempt to break out of the circle could easily backfire. In December 1995, while trying to re-establish dialogue with the Ogoni, SPDC were accused of offering bribes and kickbacks to the tribal chiefs.

Underlying these operational problems were the political problems of Shell's relationship with the Nigerian government. The Shell Statement of General Business Principles stated clearly that the company would not interfere in the political processes of sovereign states, and the local management were also committed to following the headquarters line that they could not and should not use their economic muscle to interfere in legal or judicial matters. Any other policy, indeed, was unthinkable. All they could do was to make their views known, and even that could easily backfire. General Abacha and his government were not noted for listening to criticism, however constructive. Abacha was noted, however, for his unpredictability, and for his inclination to vengeance. His constant threats of nationalisation could not be ignored. It was now two decades since an oil company operating in Nigeria (BP in the 1970s) had had its assets nationalised, but if any President was capable of that Abacha was. Less dramatically, the Shell management also had to defend their company's competitive position against the other oil companies, and that meant staying in the government's good books. With NNPC increasingly unable to meet its financial commitments, a re-jigging of the various consortia exploiting the Nigerian oilfields was always a possibility, and there were also the potentially lucrative (and, in social terms, trouble-free) off-shore concessions to consider.

In these circumstances the Shell management had to be careful what they said not only about political issues such as the Saro-Wiwa affair, but also about the commercial problems of running SPDC. The fact that pipeline improvements were being held up by the failure of the Nigerian government to release funds to NNPC was frustrating, especially as it was Shell and not the Nigerian government who were getting the public blame for the delays. But what could they do? The Nigerian government was unlikely to relinquish its majority stake in the joint venture, and if the Shell management complained too much they could only make things more difficult for themselves.

While the political problems were peculiar to Shell in Nigeria, the need to balance social, environmental and commercial considerations was common to any company in any situation. For the local management here, the guiding policy document was Shell's Statement of General Business Principles (Exhibit 1). The difficulty, as with all such statements of principle, was how to apply it. On the environment, for example, the statement said that "It is the policy of Shell companies to conduct their activities in such a way as to … give proper regard to the conservation of the environment", that "Shell companies pursue a policy of continuous improvement in the measures taken to protect the health, safety and environment of those who may be affected by their activities" and that "Shell companies establish health, safety and environmental policies, programmes and practices and integrate them in a commercially sound manner into each business". Bopp van Dessel, the environmental manager who resigned in 1994, argued that Shell was not living up to this part of the statement. But the dominant view of Shell managers, in headquarters and in Nigeria, was that they were. Environmental standards were being continuously improved (albeit from a very low base), and the pace of this improvement, while not meeting the demands of their critics, was precisely that which was judged by the management to be "commercially sound". In listing the responsibilities of the group, the Shell statement clearly put shareholders above any other stakeholders. Society came at the bottom of the list, and the duty to give proper regard to environmental standards was described as inseparable from the duty to observe the laws of the countries in which Shell operated. To define "commercially sound" environmental practices as whatever Shell could get away with in any particular country would be going to far, but most managers took the view that economic considerations were clearly dominant. The phrasing of the general business principle relating to the community reinforced this impression: "The most important contribution that companies can make to the social and material progress of the countries in which they operate in performing their basic activities as efficiently as possible" – which presumably means maximising their profit.

Exhibit 1: Shell Statement of General Business Principles (1995)

(Source: Shell web site)

Introduction

This document reaffirms the general business principles on which the conduct of the affairs of the Royal Dutch/Shell Group of Companies is predicated. They apply equally to corporate decision-making as to the individual behaviour expected of employees in conducting Shell business.

The Group is typified by decentralised, diversified and widespread operations, within which operating companies have wide freedom of action. However the upholding of the Shell reputation is a common bond which can be maintained only by honesty and integrity in all activities. This reputation is a vital resource, the protection of which is of fundamental importance. A single failure, whether it be wilful or due to misplaced zeal or short-term expediency, can have very serious effects on the Group as a whole. The reputation depends on the existence and knowledge of clearly understood principles and responsibilities and on their observance in day-to-day practice in widely different environments. Individual operating companies may have their own statements to meet national situations based on these general business principles. These principles have served Shell companies well for many years and will continue to do so in the future. It is the responsibility of management to ensure that their staff are aware of the principles on which their activities are based and that they comply with them.

1. Objectives

The objectives of Shell companies are to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy. Shell companies seek a high standard of performance and aim to maintain a long-term position in their respective competitive environments.

2. Responsibilities

Four areas of responsibility are recognised:

a. To shareholders
To protect shareholders' investment and provide an acceptable return.

b. To employees
To provide all employees with good and safe conditions of work, and good and competitive terms and conditions of service; to promote the development and best use of human talent and equal opportunity employment; and to encourage the involvement of employees in the planning and direction of their work, and in the application of these principles within their company. It is recognised that commercial success depends on the full commitment of all employees.

c. To customers
To win and maintain customers' support by developing and providing products and services which offer value in terms of price, quality and safety, and which are supported by the requisite technological, environmental and commercial expertise.

d. To society
To conduct business as responsible corporate members of society, observing applicable laws of the countries in which they operate and giving proper regard to health, safety and environmental standards. These four areas of responsibility are seen as inseparable. Therefore it is the duty of management continuously to assess the priorities and discharge its responsibilities as best it can on the basis of that assessment.

3. Economic principles

Profitability is essential to discharging these responsibilities and staying in business. It is a measure both of efficiency and of the ultimate value that people place on Shell products and services. It is essential to the proper allocation of corporate resources and necessary to support the continuing investment required to develop and produce future energy supplies to meet consumer needs. Without profits and a strong financial foundation it would not be possible to fulfil the responsibilities outlined above. Shell companies work in a wide variety of social, political and economic environments over the nature of which they have little influence, but in general they believe that the interests of the community can be served most efficiently by a market economy. Criteria for investment decisions are essentially economic but also take into account social and environmental considerations and an appraisal of the security of the investment.

4. Business integrity

Shell companies insist on honesty, integrity and fairness in all aspects of their business and expect the same in their relationships with their contractors and suppliers. The direct or indirect offer, payment, soliciting and acceptance of bribes in any form are unacceptable practices. All employees are required to avoid conflicts of interest between their private financial activities and their part in the conduct of company business. All transactions on behalf of a Shell company must be appropriately described in the accounts of the company in accordance with established procedures and be subject to audit.

5. Political activities

a. Companies

Shell companies endeavour always to act commercially, operating within existing national laws in a socially responsible manner, abstaining from participation in party politics and interference in political matters. It is however their legitimate right and responsibility to speak out on matters which affect the interests of their employees, customers and shareholders, and on matters of general interest where they have a contribution to make based on particular knowledge.

b. Political payments

Shell companies do not make payments to political parties, organisations or their representatives.

c. Employees

Where employees, in their capacity as citizens, wish to engage in activities in the community, including standing for election to public office, favourable consideration is given to their being enabled to do so where this is appropriate in the light of local circumstances.

6. Health, safety and the environment

It is the policy of Shell companies to conduct their activities in such a way as to take foremost account of the health and safety of their employees and of other persons, and to give proper regard to the conservation of the environment. Shell companies pursue a policy of continuous improvement in the measures taken to protect the health, safety and environment of those who may be affected by their activities. Shell companies establish health, safety and environmental policies, programmes and practices and integrate them in a

commercially sound manner into each business as an essential element of management.

7. The community

The most important contribution that companies can make to the social and material progress of the countries in which they operate is in performing their basic activities as efficiently as possible. In addition, the need is recognised to take a constructive interest in societal matters which may not be directly related to the business. Opportunities for involvement – for example through community, education or donations programmes – will vary depending on the size of the company concerned, the nature of the local society, and the scope for useful private initiatives.

8. The competition

Shell companies support free enterprise. They seek to compete fairly and ethically and within the framework of applicable competition laws; they will not prevent others from competing freely with them.

9. Communication

Shell companies recognise that in view of the importance of the activities in which they are engaged and their impact on national economies and individuals, there is a need for open communication. To this end, Shell companies have comprehensive corporate information programmes and provide full relevant information about their activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.

10. Joint ventures

Shell companies participating in joint ventures will promote the application of these principles in the management of the joint venture operation. The ability to do this effectively will be an important factor in the decision to enter into or remain in any joint venture.