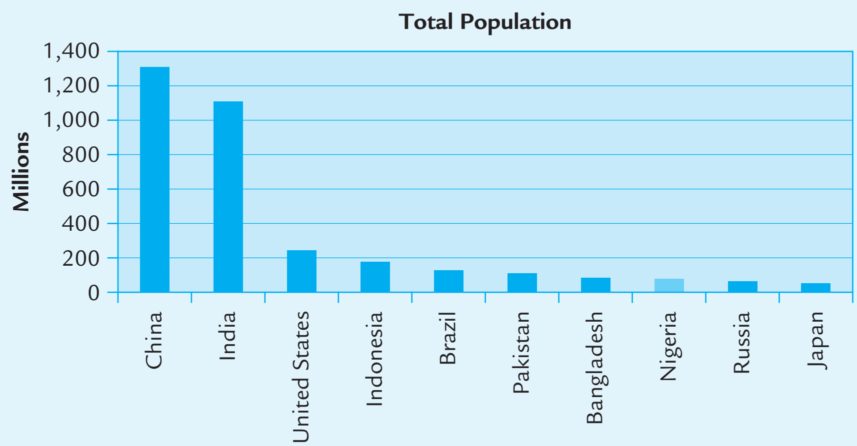
Shell Oil in Nigeria

Introduction

Nigeria is a country that is slightly more than twice the size of California. In July of 2011, its population was estimated at just over 155 million people making it the 8th most populated country in the world. It is Africa's most populous country and is composed of more than 250 ethnic groups. The country has the second highest rate of HIV/AIDS deaths and is ranked number three with respect to total number of people living with HIV/AIDS in the country.



The country itself is full of rich natural resources such as natural gas, petroleum, tin, iron, coal, and limestone. Despite these rich resources, the country has been crippled by civil wars, military rule, religious tensions, and corruption. Even more devastating was the poor macroeconomic management that has left the country completely dependent upon its number one resource which is petroleum. Petroleum provides 95% of the foreign exchange earnings and close to 80% of its budgetary revenues. In 2010, Nigeria surpassed Iran to become the second largest oil producer behind Saudi Arabia. It shipped 2.464 million barrels of oil per day compared to Iran who shipped 2.248 million barrels per day.

The United States imports 17% of its petroleum from West Africa with Nigeria being the key supplier. That number is estimated to rise to over 25% in the year 2015. Despite the potential for oil to change the lives of this resource rich country, the majority of the Nigerians live on less than $1USD per day. The poor living conditions, low wages, and lack of quality of life improvement is attributed to the large amount of corruption by the citizens, politicians, and companies who exist within the country.

A History of Corruption

While petroleum drives the majority of the economy, it also drives the majority of the corruption. Nigeria has long been considered the most corrupt country in the world. Its citizens, government and corporations have been party to and involved in political corruption, bureaucratic corruption, electoral corruption, embezzlement, and bribery. In fact, it has been said the corruption is actually a viable enterprise in the society with no way to trace these activities or prosecute those involved.

The companies operating in this region have long been blamed for allowing, participating, and even creating the corruption that has taken place. Not only have they failed to engage reformers but they have been accused of doing things like bribing officials, obscuring oil revenue figures, and failing to invest in the infrastructure and improvement of the people in the country. While the oil companies point to millions of dollars of investment into the region, one look at the impoverished conditions common to the people of Nigeria and its difficult to say it was enough.

An estimated $200 billion in revenues is planned to go to African treasuries in the next 10 years as new oil fields are opened throughout this region. This oil will bring the largest influx of revenue in the continents history and more than 10 times the amount western donors give each year in aid. There is great concern about what countries like Nigeria will do with this money and the potential corruption that will take place.

Oil giant Royal Dutch Shell Group stands to benefit the most from these new oil fields as they are the largest producer of oil in the region. The company produces more than 1 million barrels of oil per day. With that said, there is much concern due to Shell's storied past in this country.

Shell Operations in Nigeria

The Royal Dutch Shell Group, more commonly referred to as Shell, is a group of more than 1,700 companies all over the world. 60% of the company is owned by Royal Dutch of the Netherlands and 40% is owned by Shell Transport and Trading Group of Great Britain. The full merger between these two companies was official in 1907. This conglomerate of companies includes companies such as Shell Petroleum of the USA, Shell Nigeria, and Shell Argentina. The company's mission was to bulk ship and export oil revolutionizing the transport of this precious resource. Soon after the merger was complete, the company rapidly expanded across the world with both marketing offices and exploration and production facilities. Within twelve months, both of the struggling entities were transformed into successful ones.

In 1937, Shell entered the Nigeria making it the first energy company to enter the market in this country. By 1938 they were granted an exploration license that allowed them to prospect for oil in the region. It was not until January of 1956 that the company drilled its first well. Later that year, the company changed its name to Shell-BP Petroleum Development Company of Nigeria Limited (SPDC). Over the course of the next twenty years Shell entered into a number of agreements with the Nigerian government that gradually increased the government's ownership of the company from 35% all the way up to 80% in 1979.

As it stands today, Shell operates two businesses related to the exploration, production, and transportation of oil and gas within Nigeria. The SPDC still exists and is the largest private sector oil and gas company in Nigeria. It is a joint venture between the government owned Nigerian National Petroleum Corporation (NNPC) which owns 55%, Shell which owns 30%, Elf Petroleum Nigeria Limited which owns 10%, and Agip which owns 5%. The other business operated by Shell in Nigeria is called Shell Nigeria Exploration and Production Company (SNEPCO) which was formed in 1993 to develop deep water drilling resources. It operates two deep water licenses and a production sharing contract with the NNPC.

The SPDC's operations are spread over a 30,000 square kilometer area in the Niger Delta. Its network consists of 6,000 kilometers of flowlines and pipelines, 90 oil fields, 1,000 producing wells, 72 flowstations, 10 gas plants, and two major oil export terminals. This business unit is capable of producing up to one million barrels of oil per day on average. The SNEPCO is committed to the discovery of new resources and sources of oil and is charging towards the goal set by the Nigerian government of being able to have a capacity of four million barrels per day.

While Nigeria was once the shining star of Shell's portfolio, it is now a large black cloud that hangs over the entire organization. Shell Nigeria has been accused of pollution, collusion, corruption, bribery, and false accounting. Every time the company settles a claim or accusation, another one pops right up. The following provides an account of the accusations and corruption that have scared this organization throughout its history.

Ken Saro-Wiwa

Shell's first problems began in the early 1990's when criticism of human rights policies and the destruction of the environment in Nigeria became a hot topic. Ken Saro-Wiwa was a leading environmentalist and author who happened to be a Nigerian native and part of the Ogoni tribe. He was one of the more determined and articulate critics of the government and of Shell Oil's destruction of his homeland. He argued that neither party had appropriate regulations for protecting the Ogoni people's land and did not return any of the immense wealth that was taken from their region.

Saro-Wiwa organized a group called the Movement for Survival of the Ogoni People and quickly grew to be the largest political organization in the region. This group began to protest and demonstrate for an end to destructive behaviors such as oil spills, gas flaring, and the destruction of property to make way for pipelines that Shell was building. They also began demanding they be given a share of the revenues from the land Shell was using. Shell denied these claims and stated the group was greatly exaggerating their claims.

Nigeria's military began to respond to the groups claim through a strategy that has been referred to as a "scorched earth campaign against the Ogoni" which included burning villages and committing rapes and murders. Shell refused to get involved stating that the company does not get involved in politics. This led to Saro-Wiwa and eight other Ogoni members were arrested on charges that western governments and human rights groups called trumped up. The Nigerian government ultimately executed all nine with Saro-Wiwa's body being burned with acid and buried in an unmarked grave.

This event ignited world-wide protests and criticism against Nigeria, the African oil industry, and Shell. Shell was sued in a New York court by Saro-Wiwa's family and was accused of bribing soldiers who carried out human rights abuses in addition to playing a role in the capture and execution of the nine. Shell eventually settled this case out of court for $15.5M.

Oil Spills

Oil spills are quite prevalent in the Niger Delta and it is estimated that the equivalent of the Exxon Valdez spill has occurred every year for the past 50 years. There is no other place in the world that has been as battered by oil as this region. The

Nigerian Government and international environmental groups sponsored a report in 2006 that concluded as many as 546 million gallons of oil have spilled into the region of the past five decades. This has led to the destruction of swamps, aquatic life, and the main food source for many of the tribes.

Shell is the major player with thousands of miles of pipes that have been laid through the swamps and fertile land. The majority of the spillage is attributed to poorly maintained and aging pipes however Shell maintains the position that the majority of the spills are due to oil thieves and sabotage. A spokesperson for Shell stated that the company does not discuss individual oil spills but only two percent of the total spills are due to equipment failure. Richard Steiner, a consultant on oil spills, concluded in a 2008 report that historically "the pipleline failure rate in Nigeria is many times that found elsewhere in the world". He also noted that Shell has acknowledged almost every year a spill due to corroded pipes.

Shell has repeatedly received pressure from the Niger Delta people and internationally to clean up its processes and spills. In 2008, there were two major oil spills that occurred. One of the spills was due to a leak in a major pipeline that went undetected for close to four months before something was done about it. This completely devastated the twenty square kilometer network of creeks and inlets in which the Bodo people inhabit. The company initially offered the people £3,500 along with 50 bags of rice, 50 bags of beans, and a few cartons of sugar, tomatoes, and groundnut oil. The offers were rejected and the Bodo filed a class action lawsuit.

Shell finally admitted that the spills were due to operational issues and stated that it will take full responsibility for these two spills in accordance with Nigerian Law. Many estimate that Shell's exposure could be close to a hundred million dollars for the cleanup and potentially take up to 20 years to fully revive this area. They are also responsible for paying compensation to those that are entitled to receive such under the Nigerian Law.

Bribery

As discussed previously, bribery is common in Nigeria especially in doing business with the government. Shell has long been suspected of using bribery as a way of securing new territories, new licenses, and circumventing customs laws. However, up until recently no one was able to provide any proof that these things were happening.

In 2007, the SEC learned that Shell was doing business with a company named Panalpina. Panalpina was doing business with lots of different organizations that operated in high-risk countries as a freight forwarder. It was learned that Panalpina was bribing the Nigerian government on behalf of several companies including Shell. The bribes went to the government to secure preferential treatment when moving rigs, ships, workboats, and other equipment throughout the country. It was learned that the money was used to go around the customs process allowing Shell to benefit from faster movement of goods, using military aircraft to transport special goods, overlooking visa inspections, and avoiding employees being deported for overstaying visas. Panalpina provided information that Shell specifically requested for fake invoices to be drawn up with line items to mask the nature of the bribes and avoid any suspicion in case of an audit.

In addition to Panalpina confirming the bribes on behalf of Shell, Shell also admitted to separate incidents of paying $2 million dollars in bribes to Nigerian Subcontractors on its deepwater Bonga Project. It is estimated that Shell profited about $14 million because of these payments. Because of these two incidents, Shell has been ordered to pay fines of $48.1 million.

Shell Today

Even with all of these accusations, bad press, fines, and unethical issues surrounding the company, Shell continues to do business in Nigeria. The company maintains that it continues to support and improve the communities of the Niger Delta region through the taxes and royalties they pay to the Nigerian Federal Government. Shell claims to have contributed approximately $31 billion to the government over the past five years and that the government receives 95% of the revenue after costs from the SPDC joint venture.

In addition to generating revenue, the company actively promotes projects in the region. These projects support small businesses, agriculture, training, education, and health care throughout the region with many of the details of each being available from the company's Nigeria website. Education is a strong part of their contributions as they pay a portion of their profit into an educational fund for the restoration and consolidation of education in Nigeria.

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CASE DISCUSSION QUESTIONS

1. What are some of the factors explaining why corruption and bribery are so high in Nigeria?
2. Was Shell involved in the execution of the poet Ken Saro-Wiwa? What impact did the poet's death have on Shell?
3. Was Shell taking advantage of weak local regulation?
4. What can a company do to ensure that it operates ethically in societies with weak institutions?

CASE CREDIT

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Organizational and National Cultures in a Polish–U.S. Joint Venture

This case looks at differences in the cultural values and beliefs of Polish and U.S. managers employed in a joint venture in Poland. The case comes from data collected from interviews with Polish and expatriate U.S. managers.

Background

The U.S./Polish Company

The company was a joint venture with a Polish partner and a wholly owned subsidiary of a U.S. multinational corporation located in Poland. The U.S. company started operations in Poland in 1990. The joint venture started two years later.

The joint venture was a small, nonbureaucratic organization with 140 employees. Everybody knew each other and a family type of relationship existed among the managers. Both local Polish managers and U.S. expatriates reported a friendly work climate even though all top managerial positions were held by the U.S. expatriates.

Polish Attitudes Regarding U.S. Management

When asked why they chose to work for this company, Polish managers often described U.S. business as “real,” “healthy,” “tough,” “honest,” and “fair,” even though they had never had the opportunity to work with U.S. Americans. In addition, they felt that the features of Polish national culture such as “ability to work in difficult situations” and “experience of struggle with hardship of communism” combined well with American management expertise. In addition, Polish managers reported that working for a U.S. company was a major bonus for their future success and careers. Multinational corporations give employment security because they have a low risk of bankruptcy. In comparison with state-owned companies, the organization was perceived as having a very efficient organizational design dedicated to efficiency and profit making. Reflecting on his experience in state-owned operations, a Polish manager from the customer service operation unit noted:

> *The basic difference between state companies and this company is that the organization of U.S. firms contains many necessary and indispensable elements. Whereas, in Polish companies, many elements were not needed and, even in some cases, disturbed the effective functioning of the company as a whole. Profit was not a major goal, only apparent activities. Many jobs and even whole companies were created when they were not needed. They were unproductive. Here we have only jobs and departments which help the company to function effectively.*

The Polish managers expressed a great deal of enthusiasm and excitement for learning U.S. business know-how. Polish managers felt that they learned something new each day, not only from formal training but also from on-the-job training. Often Polish managers compared the company to a university. For the first time since entering a market economy, they felt they had the opportunity to learn business functions such as marketing, distribution, and logistics. These pro-American attitudes created an eagerness among the Polish managers to accept expatriate ideas concerning new work priorities. The attitudes also worked to legitimize the power and leadership of the U.S. Americans in the company.

The Polish managers believed that, unlike under the previous communist system, the new organization encouraged the development of the individual. They believed that the U.S. system of management inspired self-expression and achievement, respecting individuals and their unique personalities. There was a strong belief that hard work would bring success. Talented people who were willing to work could advance and succeed.

These organizational values were quite new for the Polish managers. In their previously state-controlled organizations, competence and good performance were not the main bases for a promotion and compensation. Party membership was the key to a successful managerial career. Rewards and promotions depended on fulfilling a political role rather than on achieving economic goals.

The Cultural Conflicts

In spite of the very positive attitudes of the Polish managers toward a U.S. management style, there were still many conflicts between expectations based on Polish cultural traditions and an organizational culture based on the national culture of the United States.

Managerial Selection

Many Polish employees wanted to be hired immediately as managers, without any experience in basic business functions. They associated the magic word *manager* with a higher status and success. U.S. managers, however, felt that "you had to earn your spurs first." The U.S. expatriate district manager recalled:

> *People applying for positions in the sales department do not want to do basic business first, to be a sales representative, they want to be immediately managers. People that I interview want to be only managers. How you can manage sales representatives if you don't know what they do? They lack a concrete answer for my question.*

Merit, Age, and Seniority

The corporate culture encouraged rewards primarily based on competence in key skills and performance against objective criteria. Both local and expatriate managers believed that individuals were appointed and promoted based on their knowledge and professional expertise. This situation often resulted in much younger managers having older subordinates. As one U.S. manager from the finance department stated:

> *The company gives a lot of authority to young people very quickly. You never know, the guy who is looking younger than you could be a vice president already.*

Although Polish managers appreciated promotions based on competence, the issue of age presented some adjustment problems. Traditional expectations hold that, when one is young, it is impossible to be knowledgeable and to have the necessary experience and competence to manage successfully. As a Polish assistant manager from the marketing department admitted:

> *I prefer to have an older boss because it would be very stupid if I have a boss younger than me. He has less life experience and a shorter marriage. He is younger and he is not authority to me. I would prefer someone who has more life experience. I realize that it is a very Polish thing that I find this to be a problem.*

The Salary System

Polish managers expressed difficulty in adjusting to the confidentiality of the new salary system. The Polish and U.S. managers differed in their beliefs regarding what kind of information was personal and what kind should be public. Polish managers wanted to know as much about each other's salaries as possible. They had no problems asking another employee about exactly how much they were paid. To the Polish managers, this served as a means of establishing their relative status. As a Polish assistant brand manager indicated:

> *I like this system but I would like to know how I am in comparison with the others. If I knew that the person who works together with me had a higher salary than me, I would be very unhappy.*

For the expatriate U.S. Americans, however, it was not part of the company culture to reveal explicit salary information. Salary information was considered personal and confidential. Most felt that revealing salary information disrupted the family climate of the organization. Instead, the Americans expressed faith in the system of assessment and reward allocation. As the expatriate head of the finance department noted:

> *Poles make mistakes when they say: "Americans don't share salaries in this system." I would say it is not that straightforward at all. In the American system, in our company's system, we don't share specifics on what any one person makes. We try very hard to share the system by which you make more salary. We make it very clear that your salary is based on your performance. If you perform well you will make a lot of money.*

Team Goals

Working not only for your own interests but also for the success of the team or the whole company was a challenge for many Polish managers, especially for those who had their initial managerial experiences in a state-controlled economy. One Polish manager noted:

> *Americans want to hire the best, because the organization will gain from them and you as a boss should be not afraid if you hire a person who is more clever than you. You will benefit from it because the company will benefit. In state companies you had to protect yourself by not cooperating—a new, better employee was your potential enemy.*

Another Polish assistant marketing manager mentioned:

> *In a state company, if somebody has a problem, he or she solves it with their own interests in mind. Here we are thinking in terms of the benefit of the whole company. I made a mistake and I regarded it as my mistake because I was responsible for it. But the problem was judged [by the Americans] as a problem and loss for all of us. This is a different way of thinking, and this is the attitude of this company. Success belongs to everybody and so does failure. This is better than making one person responsible for it.*

The Psychological Contract

In the eyes of the Polish managers, the organization required them to accept a new psychological contract between the organization and the individual. On the one hand, they felt positive about the degree of personal involvement and responsibility in the daily activities of company affairs. On the other hand, they were confused where to draw the line between professional and private lives. Many of the Polish managers felt that, for them to succeed as employees, the organization demanded too much of their private lives. As the Polish marketing manager said:

> *Americans look differently at the firm. They associate themselves very closely with it. They are part of the firm. In the past I never felt such a relationship with the firm.*

Another Polish district manager mentioned:

> *This new way of thinking, that you have to have a strong psychological connection with the firm, surprised me. You have to show you are interested. In the past you escaped from your job as quickly as possible.*

Trust

A U.S. cultural trait that surprised Polish employees was the perception of an underlying good faith in people. Both the company culture and the expatriate managers had positive valuations regarding the intentions of people within the organization. As a Polish accountant stated:

> *What was new for me was that Americans have the assumption that you are acting for the good of the firm and that you are honest and that people are good. If you go to a restaurant for a business meal, nobody will tell you that you are nasty and that you used the company money and did it for a bad purpose.*

A Polish assistant brand manager added:

> *A positive attitude toward people, trust in people—this is a basis for everything. Americans don't wait to catch you in a mistake. We are more suspicious of people. Our immediate assumption is that a person wants to do something bad.*

Polish managers expressed much more negative attitudes regarding the nature of people. These were evidenced in many aspects of the daily business life of the organization: subordinate–superiors ("My boss wants to harm me"), employee–peers ("My colleagues would only criticize me"), customer–product ("Americans are trying to sell us bad products"), employee–product ("I don't believe in the value of this product"). A U.S. expatriate brand manager, describing the Polish managers, indicated:

> *I have never met a group of people that was more skeptical of the future and more distrusting. Everyone we do business with is convinced that we are dumping a less quality product on the market. The Polish customer is very skeptical. They don't believe that they can get products as good as anybody else in the world.*

Distrust, fear, and a disbelief that the boss wishes well for the employees were common attitudes observed by the U.S. expatriates. One U.S. expatriate from customer service operations remarked:

> *Sometimes they [the Polish managers] don't understand that the company is trying to do the right things for individuals. Sometimes there will be questions which assume that the employer is going to take advantage of them and is going to treat locals badly. It is not a good assumption that the company and manager are not trying to help them if they have a problem.*

Informality

U.S. managers valued blunt and direct speaking. Saying exactly what you mean was considered a virtue, and the U.S. managers had a low tolerance for ambiguity. Therefore, expatriate managers took most explanations at face value. Reacting to this, Polish managers often described Americans as very "open," "direct," "spontaneous," and "natural" during communication. However, this style of communication clashed with the indirect communication habits of Polish employees. As the American head of the marketing department stated:

> *Communication with Polish employees is difficult, especially when an employee has a problem. There is a general unwillingness to talk directly about oneself and one's problems. Poles will gladly talk about somebody else. They will not talk about their own needs. They don't like direct questions about things which are important to them. Perhaps it is considered impolite, too bold, or inappropriate for them.*

Polish managers adapted to the U.S. directness by developing an informal network of communication among themselves, which served as a buffer between the U.S. and Polish managers. To deal with their U.S. superiors, Polish managers first talked among themselves. Then one person would become responsible for going to a U.S. manager and telling him or her about someone else's problems. Expatriate managers found it unusual when subordinates who needed to communicate problems resorted to this informal channel. However, this buffer in communication provided a comfort zone for the Polish managers. As the Polish assistant marketing manager noted:

> *Poles more easily criticize things among themselves, but it is difficult for them to criticize things in the presence of Americans. It is as if they don't believe in their strengths, and are afraid that their opinions are either untrue or irrational. They are afraid of being funny.*

Americans also introduced an informal style of communication by addressing everyone in the office on a first-name basis. Expatriates expressed the belief that their organizational culture provides an opportunity to "lead by competence, not by formality in relationships between superiors and subordinates." They were proud of their openness and equality in forming business relations. To the expatriates, the Polish managers who resisted the informality appeared to be cold and distrusting. Expatriates interpreted it as the "director syndrome" or as an example of an attitude from the communist-controlled past. The expatriate head of the sales department described it as follows:

> *I respect their history. I respect the cultural aspects. Every time they call me "Mister Director" I remind them to call me by my first name. I am constantly telling them that I have a culture, too. This company has a culture, one that I want to build here. I don't like the environment that formality fosters and the environment that it creates. It is a barrier for effective communication. You almost have too much respect, and then you stop talking to me, soon you stop coming and saying, "I have a problem."*

The majority of Polish managers adjusted to the norm of a first-name basis very quickly in dealing with the Americans. However, this did not mean that they wished to be on a first-name basis when speaking among Polish managers, especially with their Polish subordinates. Using first names for older people or for superiors is not a Polish norm. Some Polish managers were afraid that they would lose the ability to lead by being so informal. They believed that distance between superiors and subordinates helped them in the direct management of lower staff. The Polish head of the human resource department said:

> *There are some people in the firm with whom I will never be on a first-name basis. I am on a first-name basis with some people and on a Ms./Mr. basis with others. I don't know why, but I will not change that.*

Informality also contrasted with Polish views that managers should symbolically show their status and success. Polish managers gave much value to formality, titles, and signs of status, such as having a good make of car. Superiors were expected to have these trappings as a demonstration of their authority over subordinates. In contrast, the U.S. expatriates regarded many of these status symbols as counterproductive and meaningless. A U.S. brand manager mentioned:

> *Poles are passionate about getting ahead in status. People are looking for examples of badges to wear for the rest of the populace to know that you have made it. My boss must be in a big car. "What car are you going to drive?" I was asked by a Pole in the first meeting in Poland.*

Positive Feedback on the Job

There were significant differences between Polish managers and expatriate Americans in the type of feedback given on the job. Consistent with their views of management practices, the U.S. managers were quick to recognize achievements publicly and privately. Polish managers were generally positive about this approach and perceived it as motivating. However, in spite of this reaction, positive feedback was not a popular management technique among the Polish managers. They preferred to give criticism and generally negative feedback in front of subordinates and peers. Reacting to the U.S. approach, a Polish district manager described the situation:

> *If you are good, Americans can send you a congratulatory letter. Once I had got such a letter from an American colleague of mine even though he had no particular responsibility for my job. He was not my boss. I would never think of doing so. It was so spontaneous.*

Conclusions

Coming from a culture that lacked experience and contact with U.S. businesses before 1989, Polish managers generally had positive but stereotypical views of U.S. business practices. In the short term, such attitudes played a highly motivating role in attracting managers to the joint venture. In the long term, however, despite the initial enthusiasm, basic cultural differences may lead to disillusionment among Polish managers.

CASE DISCUSSION QUESTIONS

1. What are some important cultural differences between the Poles and the U.S. expatriates?
2. Using Hofstede's and the 7d cultural dimension models, explain some of the cultural differences noted in the case.
3. What are some institutional explanations for how the Polish workers are reacting to U.S. management style?
4. How can the joint venture take advantage of the initial enthusiasm of the Polish managers to build a stronger organization?
5. What cultural adaptations would you suggest to the U.S. expatriate managers regarding their management styles?

CASE CREDIT

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