Keeping Competitive in Turbulent Markets, 1973-2007

A History of Royal Dutch Shell

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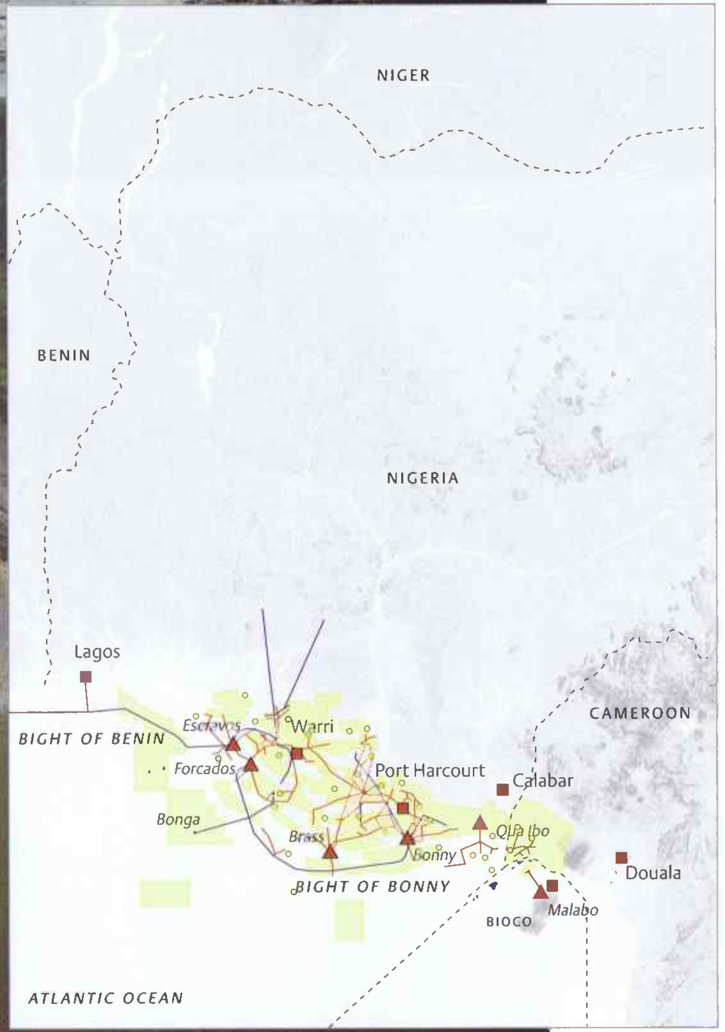

[45]

Nigeria

Shell interest
Gas pipelines
Oil pipelines
Terminal

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Local people were experiencing the downside of oil production in the form of gas flaring and oil spills without benefiting from the substantial earnings, which mostly went directly to the national government. Above: A woman passing a gas flare from the local flow station in Etelebou; below: Peremabiri, with the plumes of smoke of a Shell-operated flow station in the background.

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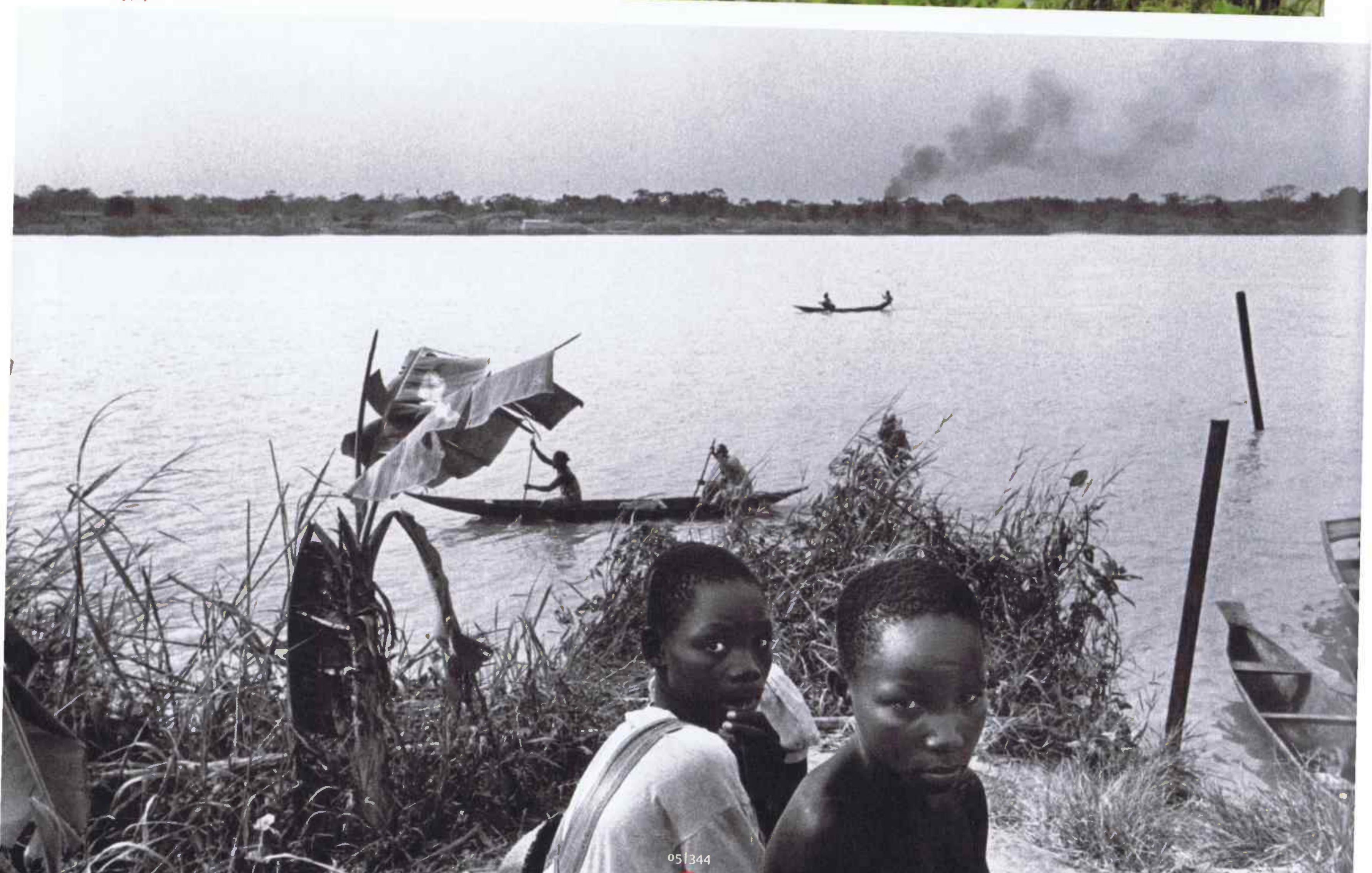

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A woman sells gasoline for motor bikes and cars on one of Okrika's main roads, Niger delta, 2005.

Nigeria joined OPEC shortly after the end of the civil war in July 1971. As in other OPEC countries, the Nigerian government sought to renegotiate the agreements with oil companies, providing for government participation via its Nigerian National Petroleum Corporation (NNPC). Starting with a claim for 35 per cent in 1973, a year later Nigeria raised its participation to 55 per cent.[118] In 1979 Nigeria nationalized BP's marketing activities and BP's 20 per cent stake in the joint venture, alleging that it had violated the boycott against South Africa by transporting Nigerian oil to that country. As a consequence the stake of NNPC in the joint-venture company rose from 60 to 80 per cent, with Shell Petroleum Development Company (Shell Nigeria), holding the remaining 20 per cent.[119] In the 1980s the Nigerian government faced a fall in its oil revenues. For instance, between 1980 and 1983 these revenues fell from $24 billion to $9 billion, a decline which took place even before the oil price collapse in 1985.[120] Therefore it became more difficult for the government to keep up its investments in the joint venture with Shell Nigeria. In 1989 Nigeria reduced its share in the joint venture to 60 per cent, with Shell Nigeria taking an extra 10 per cent, and Agip and Elf both 5 per cent.[121] In 1992 Elf acquired another 5 per cent in the joint venture from the Nigerian government. By 1994 the shares in the unnamed joint venture, the largest producing venture in Nigeria, were divided as follows: the Nigerian National Petroleum Company owned 55 per cent, Shell Nigeria 30 per cent, Elf 10 per cent and Agip 5 per cent. Shell Nigeria acted as operator for the joint venture. For Shell's oil production Nigeria was an important country. In the years 1991-4 Nigeria produced on average 18 per cent of the Group's equity oil and natural gas liquids. It contributed 12 per cent of the Group's E&P net income over these years.[122]

Nigeria is not only rich in oil but also in natural gas, both associated and non-associated. Most of the associated gas was flared, because of insufficient local demand. However, the flaring of associated gas was both wasteful and bad for the environment. From the late 1960s, the Nigerian government and several oil companies, including Shell, negotiated about an LNG (Liquefied Natural Gas) scheme for Nigeria, including the Bonny Liquefied Natural Gas scheme launched in 1976. In 1981 Phillips Petroleum Company, the technical leader, withdrew, and when BP did the same, the scheme was wound up. The Nigerian government appointed outside consultants to develop a new scheme. One of the options under consideration was a pipeline from Nigeria to Europe, a proposal that seemed to receive heavy encouragement from the US. Peter Holmes did not think the Nigerians would regard the pipeline as a realistic proposal, basically because they lacked trust in their neighbours.[123] The LNG project was interesting for

In the 1990s the Ogoni people demanded political autonomy so as to participate in the affairs of the Federal Republic of Nigeria as a distinct and separate unit, with the use and development of Ogoni languages and culture, and the right to religious freedom. They also asked for the right to protect the Ogoni environment and ecology from further degradation, including protesting against the continued practice of gas flaring.

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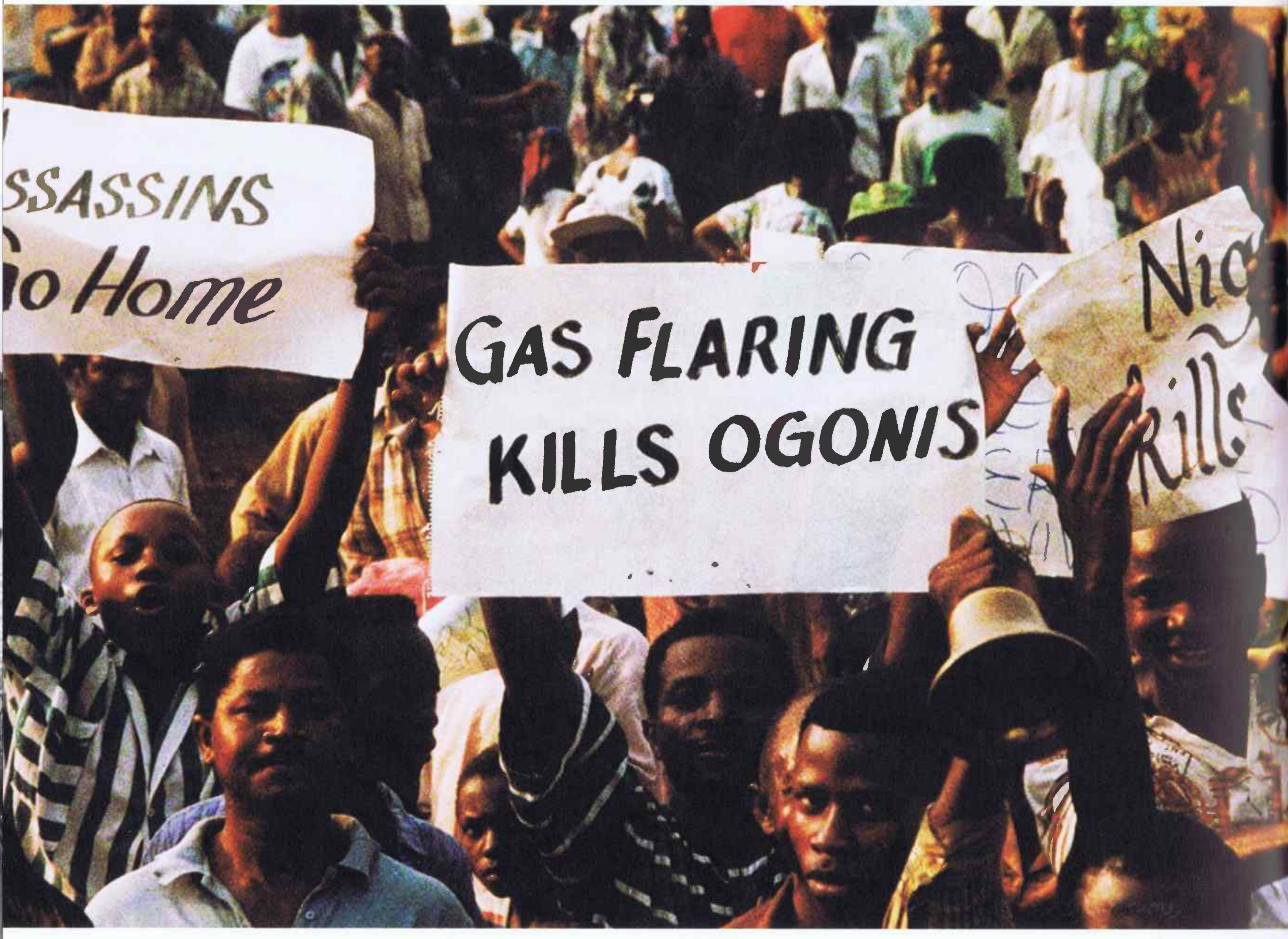

Shell on it own merits, but also because it offered possibilities to process associated gas and reduce the contested gas flaring. In 1989 the military rulers made moves towards returning to parliamentary democracy, but this process was slow, creating much political uncertainty. When finally the presidential elections were held on 12 June 1993, the military government annulled the result and set up an interim government.

The negotiations about the Nigerian LNG project were equally drawn out, because the government was an important partner. The minutes of Shell's Conference in November 1992 give a glimpse of the difficult negotiations. Considering the best choice for the construction of the project, Shell as technical adviser for the LNG project had recommended consortium A over consortium B on the basis of the overall tender audit. Prior to a decision by the Nigerian LNG board, however, the Minister of Petroleum and Mineral Resources had intervened and recommended that the consortia be combined to 'get the best out of each'. In response, the LNG board convened and agreed that such a combination was not desirable and that Shell's recommendation should be accepted. This decision was sent forth in a memorandum to the Minister. As Henny de Ruiter, Group managing director, explained to the Conference: 'The Memorandum was not favourably received by the Minister's office, and the National Nigerian Petroleum Company had subsequently removed each of its Directors from the Nigerian LNG Board. (..) It was thought that the chances of making a Final Investment Decision by the 16 December 1992, as scheduled, were remote'.[124]

As negotiations were continuing, the media began to scrutinize Shell's activities in Nigeria. Channel 4's television programme 'Heat of the Moment', broadcast in October 1992, accused Shell of double standards in environmental matters and

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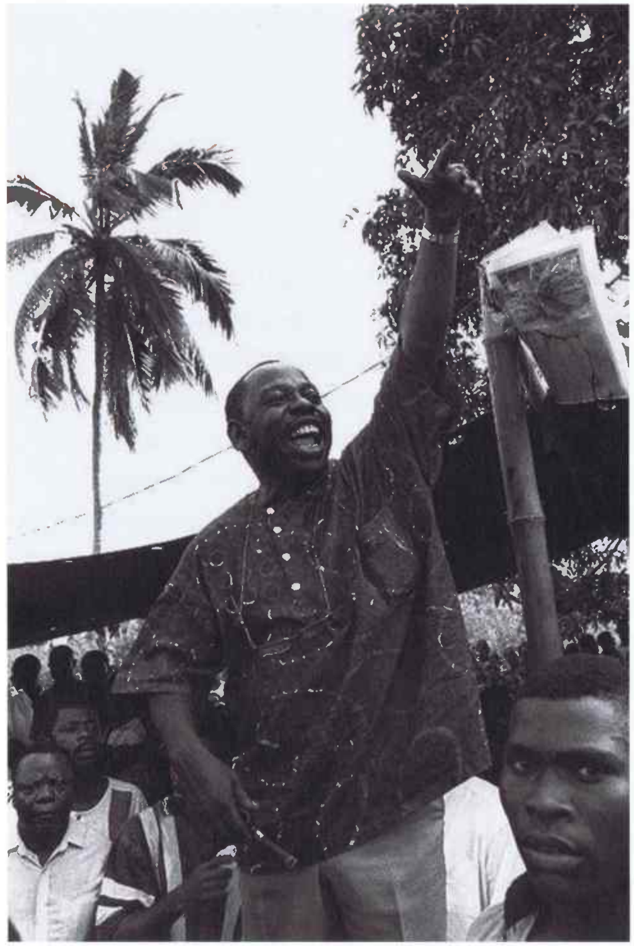

The writer Ken Saro-Wiwa became spokesperson for the Ogonis and leader of the Movement for the Survival of the Ogoni People (Mosop). He travelled abroad to enlist support for the cause of the Ogonis with great success. In June 1994 he and several others were arrested and accused of having been connected to the murder of four traditional leaders, accusations they vehemently denied. On 31 October 1995 Ken Saro-Wiwa and eight co-defendants were found guilty and sentenced to death in a process that was widely considered unfair. Despite international protests and requests for clemency the executions went ahead.

referred to an incident two years earlier at Umuechem in the Niger delta, during which a peaceful protest had been turned into a bloody confrontation by the intervention of the brutal Mobile Police Force. Shell Nigeria had a different version of the same incident. A group of Umuechem youths occupied a rig location and oil production flow station, operated by Shell Nigeria. The protesters chased out the staff before they had the opportunity to make the locations safe. Complying with its statutory requirement to report any threat to oil production the authorities were informed. But the local police were also driven out by the demonstrators. The Police Commissioner then sent in a contingent of the Mobile Police Force, which attacked the village, causing destruction and killing a number of people. Therefore the police were to blame for the unwarranted attack on the village. Looking deeper into the disturbances, Shell argued that in a number of rural oil-producing areas of Nigeria unease was growing among a group of unemployed but well-educated young people, who were challenging traditional local leadership. Shell Nigeria tried to maintain dialogue with the various groups without becoming caught up in local disputes.[125] The television programme marked the start of an international campaign against Shell and its performance regarding environmental and human rights issues in Nigeria.

The campaign focused on the plight of the Ogoni people and the environmental damage to Ogoniland in the Niger delta by the oil industry. The Ogonis were an ethnic group of over half a million people, who lived by farming and fishing. The oil production in Ogoniland was about 1.5 per cent of oil production in Nigeria. In 1990 a group of five families presented the Ogoni Bill of Rights to the Nigerian government. While reaffirming their wish to remain a part of the Federal Republic of Nigeria, they demanded that the Ogoni people be granted political autonomy to participate in the affairs of the Republic as a distinct and separate unit. Apart from demanding the use and development of Ogoni languages and culture and the right to religious freedom, they asked for the right to protect the Ogoni environment and ecology from further degradation. They also pointed out that the Ogoni people had not profited in any way from the oil revenues: 'It is intolerable that one of the richest areas of Nigeria should wallow in abject poverty and destitution', they wrote.[126] One of the signatories of this Bill of Rights, the writer Ken Saro-Wiwa, became the spokesperson for the Ogonis and leader of the Movement for the Survival of the Ogoni People (Mosop). Saro-Wiwa travelled abroad to enlist support for the cause of the Ogonis with great success.

As the Nigerian government remained unresponsive to the claims of the Ogoni, Mosop decided to focus their campaign on Shell Nigeria instead and claim from it a sum of $10 billion, $6 billion in rent and royalties and $4 billion in compensation for environmental damages. Mosop accused Shell Nigeria of collusion with the government in 'the genocide of the Ogonis'. One might ask why Shell was targeted with the other oil companies seemingly escaping attention. In the first place, Shell Nigeria was the operator of the most important production venture, which controlled half of the Nigerian oil production. Second, it had a larger share in this joint venture than either Elf or Agip. Third, it had a strong position in the onshore oil production, while competitors worked predominantly offshore. In short, Shell Nigeria was an important player in the Nigerian economy and a well-known brand internationally.

In January 1993 Mosop mobilized large groups of Ogonis, who staged a mass protest at oil facilities operated by Shell Nigeria. Though Mosop claimed that their campaign was non-violent, Shell felt it was no longer safe for staff and contractors to work there in the face of growing intimidation from members of the communities. As a consequence, Shell withdrew from Ogoniland, though pipelines still passed through the region.[127] Shell Nigeria acknowledged that the people in the oil-producing areas, including the Ogonis, did not receive their fair share of the oil revenues, but Shell believed that these political issues should be addressed to the government. In negotiations with the Nigerian Head of State, General Sani Abacha, Shell's representative underlined that more money should be allocated to the oil-producing states. Though there were certainly extensive environmental problems, Shell did not think the word devastation applied. Shell agreed that the facilities built in the 1960s and 1970s were no longer acceptable by modern standards, and some were indeed in a poor state. A programme to update these facilities was launched in 1990 and was still ongoing in the mid-1990s. Oil spills took place regularly due to corrosion and in the course of production. However, in the Ogoni area a relatively high percentage of oil spills were caused by sabotage. According to Shell, in the Ogoni area 69 per cent of all oil spills between 1985 and the start of 1993 were caused deliberately to win compensation. The usual methods were hacksaw cuts and opening or tampering with valves. In comparison, in Nigeria as a whole the percentage of sabotage was no more than 25 per cent of all oil spills, while 75 per cent resulted from corrosion in older pipelines and other facilities.[128] A study by the World Bank covering the Nigeria's Delta State found much lower figures for oil spills caused by sabotage during the period 1991-1994: only 43 (that is 15 per cent) of 287 oil spills. In volume the oil spills caused by sabotage, however, counted for 35 per cent of total volume.[129]

In June 1994 Ken Saro-Wiwa and several others were arrested and accused of having been connected to the murder of four traditional leaders, accusations they denied.[130] Human rights campaigners asked Shell companies to intervene in order to gain the release of Ken Saro-Wiwa. Shell, however, argued that commercial organizations should not use their influence to interfere in the legal processes of a sovereign state concerning an alleged criminal matter. In one of its Briefing Notes, Shell made its point of view crystal clear: 'A private company has neither the right nor the competence to become involved or attempt to interfere with those legal processes. (..) Those campaigning on behalf of Mr Saro-Wiwa would be the first to criticise Shell companies if they interfered in the politics of a country on a matter which did not suit their agenda.'[131] Human rights campaigners challenged Shell's point of view in cases where the regime was oppressive and the legal system obviously flawed. Campaigners also questioned Shell's environmental performance. Moving from a defensive towards a more responsive attitude Shell decided to start an independent review of the environment of the Delta region and to increase its community spending. But even an independent scientific assessment of damage to the environment would not have solved the controversy, because the Ogoni had a different perception of their environment. For them it held a cultural and spiritual value that could not be captured in figures and tables but had to be experienced and appreciated.[132]

One of the problems in the Niger delta is that poor people are driven to use the oil facilities in ways that were never intended. For example, Urohobo women bake their tapioca in the heat of a gas flare from a Shell operated flow station in 2004. Though gas itself is a clean energy source, the burning of associated gas introduced soot into the air that over time could cause serious health problems.

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At the beginning of the twenty-first century the situation in the Niger delta remained difficult and complex for people working in the oil industry as well as for those living there. Determined to profit from the oil in their ground, some groups stole crude oil or gasoline, causing pollution and creating dangerous situations themselves. Left below: a boat used for the theft of oil, moored in a river near a Shell facility.

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From left to right: A member of the Niger Delta Volunteer Force siphons fuel into a jerry can in order to fuel one of their boats.

The national secretary of Orere Uluba village quarrels with Shell employees and Nigerian Federal Security because of their unannounced entry onto village property in 2005. Shell contractors wanted to begin a clean-up operation.

Workers subcontracted by Shell clean up an oil spill from an abandoned well.

On 31 October 1995 Ken Saro-Wiwa and eight co-defendants were found guilty and sentenced to death by a Special Tribunal set up by Sani Abacha outside the normal judicial system. This Tribunal did not allow for the right of judicial appeal to a higher or independent jurisdiction.[133] The trial was widely considered unfair. Shell came under increasing pressure to speak out against their conviction. Up till then Shell had followed a strategy of 'quiet diplomacy', refusing to interfere publicly in the trial. On 8 November 1995, however, the Committee of Managing Directors decided to send a letter to the Head of State to ask for clemency on humanitarian grounds. Shell had tried to get the other oil companies on board, but these had refused to join Shell in making representations to the Head of State.[134] This action did not have the desired effect, and with unseemly haste Ken Saro-Wiwa and the other eight were hanged on 10 November 1995. In his closing address to the tribunal, Saro-Wiwa argued that Shell was more on trial than he and his co-defendants: '...there is no doubt in my mind that the ecological war that the Company has waged in the Delta will be called to question sooner than later and the crimes of that war be duly punished. The crime of the Company's dirty wars against the Ogoni people will also be punished. (..) In my innocence of the false charges I face here, in my utter conviction, I call upon the Ogoni people, the peoples of the Niger Delta, and the oppressed ethnic minorities on Nigeria to stand up now and fight fearlessly and peacefully for their

Chapter 5

Congested traffic on a road in Port Harcourt in Nigeria in 2004.

rights. History is on their side. God is on their side. For the Holy Quran says in Sura 42, verse 41: 'All those that fight when oppressed incur no guilt, but Allah shall punish the oppressor.' Come the day.'[135]

Following the executions Shell companies found themselves under attack from all sides, including the media, NGOs, single issue pressure groups,and even investors. Many critics accused Shell Nigeria of insufficiently distancing itself from the military regime. They found their point of view confirmed by the fact that Shell announced a final investment decision regarding the Nigeria LNG project only a few days later, on 15 November 1995. Indeed, Shell was well aware that the announcement came 'at the worst possible moment'.[136] Having worked on this new LNG project for more than ten years, it was understandable that Shell Nigeria did not want to put it at risk by postponing the investment decision. Furthermore, should the LNG project collapse, then Shell might well experience negative consequences for future business opportunities in upstream activities of which their competitors could be expected to take full advantage. In addition a major opportunity for reducing the flaring of gas would be lost. Therefore the LNG project would help address one of the main demands of the environmental campaigners.[137] Pax Christi and Amnesty International accepted that the Nigerian government was responsible for the deaths of Ken Saro-Wiwa and his fellow activists, but they wanted Shell companies to speak out openly against violations of human rights.[138] Nelson Mandela asked for oil sanctions to be imposed against Nigeria during the Commonwealth Summit in Auckland, but politicians were not very keen to take firm action, despite the public indignation over the human rights situation in the country. Friends of the Earth, Greenpeace and others called for boycotts against Shell petrol stations, but consumers did not respond as eagerly as in the Brent Spar case. The Ogoni issue did not cause an immediate loss in sales as had happened over the Brent Spar controversy, but it had a negative impact on the reputation of Shell companies. As Shell had concluded many times, its 'licence to operate' depended on its reputation. The Group had some hard thinking to do.

Lessons to be learned After the barrage of negative news seriously damaging its reputation Shell began a process of soul-searching. Top managers felt puzzled. Apparently Shell had lost touch with the expectations of a number of its key stakeholders, but why and how? Shell wanted to know what went wrong and which lessons had to be learned. In 1996 the CMD started the project 'Reputation Management' to analyse the problems and develop initiatives to provide solutions. The first step in the review process was a year-long, wide-ranging consultation programme about 'society's changing expectations'. With the help of research among the general public, special groups, and Shell managers, round-table meetings and benchmarking, Shell examined society's rising expectations and Shell's inability to meet them. It turned out that society expected the Group to take responsibility for the significant impact its operations had on global society. It required a demonstrable commitment to sustainable development alongside a strong financial performance. Society expected ethical integrity and concern for human rights. Protestations of commitment had to be backed up by transparency, social accountability, and verifiable performance.[139] Interestingly, all these elements of 'society's changing expectations' had been discussed by Shell's own PA department and published in its magazine *Interchange* in the early 1990s.[140] Therefore, the knowledge had been there, including the awareness that this knowledge had to be spread throughout the enterprise, starting at the very top.

Nonetheless, a poll taken in 1997 by Mori (Market & Opinion Research International) concluded that Shell had failed to match rising societal expectations. In particular young people, women, key media, and legislators did not feel comfortable with the way Shell thought and acted. Both the general public and special groups admired Shell as a competent and professional operator, but suspected it of being aloof, unresponsive, and less interested in environmental or human issues than it should be. Shell was not perceived as being interested in dialogue with local communities or special groups, and too many of its communications reinforced a perception of coldness, according to the Mori poll. Not all countries felt equally negative about Shell. Public opinion in some non-European countries, including Malaysia, Brazil, the USA, and South Africa, was far more favourable towards Shell than in some of its key European countries, in particular the Netherlands and Germany.[141] The chairman of the CMD, Cor Herkströter gave the following analysis of the problem: 'One major reason, from my perspective, was a type of technological arrogance which is rather common in companies with a strong technical base. Most of us in Royal Dutch/Shell come from a scientific, technological background. That type of education, along with our corporate culture, teaches us that we must identify a problem, isolate it and then fix it. That sort of approach works well with a physical problem – but is not so useful when we are faced with, say, a human rights issue. For most engineering problems there is a correct answer. For most social and political dilemmas there is a range of possible answers – almost all compromises. So, starting off with a strong, scientifically grounded mind-set, we tended to misjudge some of the softer issues and consequently made mistakes. We misread some of the situations.'[142]

From the Mori poll and the examination of society's rising expectations, Shell's CMD concluded that it had to take serious action. In fact, it followed the path described by Herkströter: 'identify a problem, isolate it and then fix it'. First the problem had been identified: the enterprise needed to show that it contributed to sustainable development, fostered an open corporate culture, and was willing to engage in dialogue with stakeholders. An

Management is involved in negotiating and balancing demands.

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The Shell magazine *Interchange* underlined in 1992 how managers had to strike a very fine balance between the many different demands posed by the various stakeholders of the company.

essential part of showing its commitment consisted in developing systems to manage, measure, and verify progress and performance. Now it was time to fix it.

To be better prepared for society's changing expectations in the future Shell enhanced its dialogue with external stakeholders. Mark Moody-Stuart, Group managing director, stated in 1996 that the public at large now demanded to be convinced that a company practised what it preached. This had clear implications for how Shell companies put their messages across: 'a fine line had to be steered between a willingness to listen to others and maintaining the courage of one's convictions'.[143] The dialogue with external stakeholders implied that not only the public in general but also specific groups within society had to be targeted. Renaming the function 'Public Affairs' as 'External Affairs' reflected this new approach to stakeholder engagement, which included discussions which were not necessarily in the public eye.[144] The exchanges with external stakeholders took place on Group level as well as local level. For instance, Govert Boeles, director of personnel and social affairs of Shell Pernis, participated in a dialogue with the Dutch Council of Churches. As a Christian himself he found it refreshing to discover that the churches were prepared to engage in a debate with Shell employees, while in the past as a Shell employee he had felt condemned out of hand. Leen Koster, manager of environmental affairs at Shell Nederland, learned from the discussion about sustainability that people in Shell were inclined to put their trust in new technology, while churches wanted to influence the behaviour of people. The discussions convinced Jan Gruiters, adjunct secretary of Pax Christi, that Shell had undergone a real change in its thinking that went beyond just public relations.[145] In some twenty-five countries Shell engaged in discussion with opinion leaders and organizations such as Amnesty International, Pax Christi, and Human Rights Watch. Tim van Kooten, issue manager of Shell Nederland, organized these encounters not so much to convince the other parties as to find a way of sharing dilemmas.[146] The discussions contributed to the revision of Shell's Statement of General Business Principles.

First formulated in 1976, the Statement had been revised regularly in response to particular issues at the time. For instance, in 1984 it was no longer considered necessary to defend the role of profit and the market economy.[147] The major additions in 1997 included clear references to human rights and sustainable development. The reformulated business principles underlined the responsibility of Shell companies 'to respect the human rights of their employees'. The new statement extended the responsibilities of Shell companies towards society. As in the past, Shell companies were expected to conduct business as responsible corporate members of society and to observe the laws of the countries in which they operated. The new clause asked Shell companies 'to express support for human rights in line with the legitimate role of business and to give proper regard to health, safety and the environment consistent with their commitment to contribute to sustainable development'. The addition 'human rights in line with the legitimate role of business' was chosen with care, because the term 'human rights' covered so many different aspects, ranging from the right to life and liberty to living conditions and the quality of life. Shell companies could not possibly be expected to deal with all those aspects.[148]

Earlier statements had included reference to health, safety, and the conservation of the environment. The new statement referred several times to the wish to contribute to 'sustainable development'. In the conflict with the Ogonis, the refusal of Shell to put pressure on the Nigerian government had been hotly contested by the pressure groups. In the reformulated business principles Shell companies saw their responsibilities extended. Shell companies were, of course, still expected to act within the laws of the countries in which they operated in pursuit of their legitimate commercial objectives, and Shell companies were not supposed to make payments to political parties, organizations or their representatives or take any part in party politics. When dealing with governments, however, Shell companies were given the right and the responsibility to make their position known on any matter which affected themselves, their employees, their customers, or their shareholders or even the community where they had a contribution to make.[149]

Together with a revision of the business principles Shell developed a system of assurances, an internal accounting system to make sure all Shell companies did indeed comply with the business principles. When the business principles were first launched in 1976 local variations according to local customs had been considered acceptable. This was no longer the case in 1997. The Statement of General Business Principles became mandatory for all Shell companies, including Shell Oil in the US. Shell Canada accepted the same principles, and joint-venture partners were also expected to subscribe to them. As the world not only expected words but also proof, an internal and external system of assurances was developed. The external way of showing Shell's good intentions consisted of the publication of the externally audited Shell Health, Safety and Environment report in 1997, followed by the Shell Report for 1997, published in 1998 under the telling title 'Profits and Principles: Does there have to be a choice?' The report was drafted by a small Shell team assisted by consultants, including Arthur D. Little and the environmentalist John Elkington of SustainAbility. Not surprisingly, the Shell Report 1999 borrowed from Elkington the expression 'people, planet & profits' to describe the 'triple bottom line' for responsible companies. The inclusion of external assessments was vital to the credibility of the reports, but here Shell had to explore new territory. The area of environmental auditing was in its infancy, and 'social auditing' was even less advanced. While measuring performance was essential, clear yardsticks had yet to be developed. Also, social criteria were harder to apply and measure than financial ones. Therefore, Shell commissioned Arthur D. Little to propose a social responsibility management system.[150] Though Shell's (social) reports met with considerable approval, some of the environmental critics dismissed the effort as 'greenwash', and some human rights activists remained unimpressed.[151]

Following the custom in the USA and UK, Shell set up a Social Responsibility Committee as a new committee of the boards of the parent companies to review the practices, policies, and procedures of the organization with regard to issues of public concern.[152] This committee, chaired by Lord Oxburgh, oversaw the process of preparing the Shell (social) reports. For instance in 2001 it advised that the report should address explicitly the integration of the different aspects of sustainable development and the necessary trade-off that sometimes had to be made among environmental, social, and economic concerns.[153] Wind energy offered a striking example of the difficulty of getting it right. Hailed as the perfect renewable energy in the 1980s, wind energy came under attack in the early twenty-first century because wind farms on land changed the landscape and those at sea risked damaging birds.

The Social Responsibility Committee also supported the creation of the Shell Foundation, the Group's flagship social investment scheme. In itself social investment was not new to Shell. Over the years Shell operating companies had been involved with local projects according to local needs. For instance in the early 1990s Group companies' expenditure on charitable grants or donations and social sponsorship amounted to some $40 million per year, representing about 0.6 per cent of the Group's pre-tax profit or 0.9 per cent of post-tax profit. On average 45 per cent of total grants expenditure went to education, and 15 per cent each to

Shell brochures from 1998 with projects to help people build a better world.

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A Shell-sponsored elementary school in the Philippines.

three categories: culture and community, environment, and medical. The remaining 5 per cent were used to 'encourage young people to realize their full potential'.[154] The local companies continued to have their own social investment. The central Shell Foundation made the contribution of the Group more visible and more independent from daily operations. To start with the Foundation received an endowment of $250 million, with additional funding in the next ten years in order to support an annual programme of around $25 million.[155] The Shell Foundation had two main programmes: Sustainable Energy and Sustainable Communities. Initially the long-running LiveWIRE programme counted as a separate third programme. This programme to help young people set up their own business originated in the UK in the 1970s and had been taken up by many other countries as far as it suited local circumstances. Typical of the Foundation's approach was the collaboration with local partners. For instance, the 'Micro-enterprise for women at risk in Romania/Slovakia' was run by the Slovakian NGO Integra. Its main objective was to enable women to break out of the circle of unemployment, dependency, and poverty by helping them set up their own small business. The programme Embarq formed an interesting initiative to combine the two aims of sustainability in energy and community. Embarq, in partnership with the World Resources Institute, aimed to find solutions for cities in developing countries struggling with air pollution, traffic congestion, and lack of access to clean and convenient transport. Both examples illustrate the ambition of the Shell Foundation: 'Helping society build a sustainable future'.

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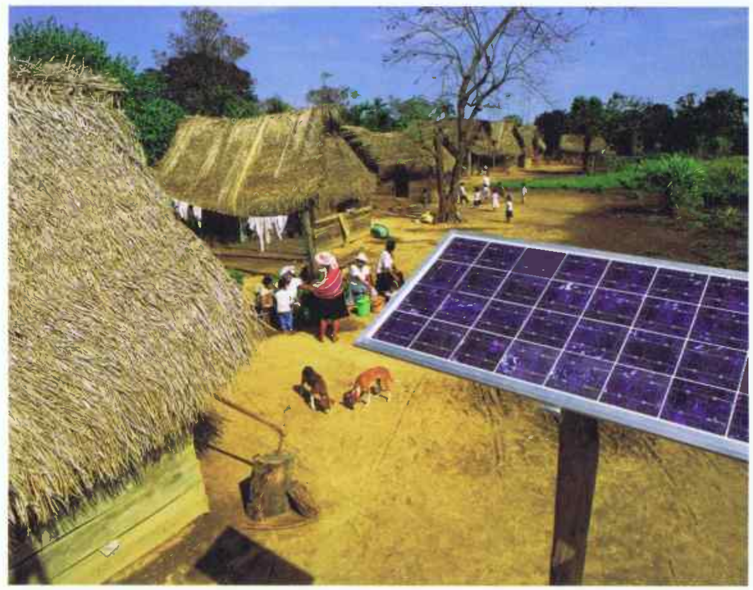

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In its social programmes Shell developed two key areas: sustainable energy and sustainable communities. Providing sustainable energy to local communities served both goals, as seen above at the demonstration of rural solar energy in Hatarekotuwa, Sri Lanka.

Below: In 1998 Shell and Eskom, South Africa's national electricity supplier, started a joint venture project in South Africa to set up solar panels for delivering electricity to circa 50,000 rural villages.

Development grants from Shell Nigeria have funded the construction of homes and schools, and the improvement of roads and infrastructure, including the Mowoe Primary School in Warri, Niger delta, seen here. One huge challenge in corporate community programmes, however, is finding a way of maintaining the facilities after they have been built.

To underline further its commitment to sustainable growth, Shell set up a separate business unit, 'Renewables', in 1997, focusing on solar power, biomass and sustainable forestry. The forestry activities, however, turned out to be more linked with the pulp and paper industry than with biomass. When campaigners began to question the green credentials of forestry, the activity became less attractive from the point of view of sustainable business. Because the link of its forestry business with energy was tenuous, Shell got out of this part of its renewable portfolio but instead included wind power. [156]

The truly sceptical critics were hard to convince with even the most social of programmes or progressive energy plans. In Nigeria, Shell stepped up its spending on local community projects in the Niger delta, but critics found the help inadequate or inappropriate or unequally divided among the various local groups. Local strife and tensions remained. In 2002 the environmentalist campaigner Jack Doyle argued that the British-Dutch enterprise must turn its back on fossil fuels if it were to escape a legacy of well blow-outs, oil spills, chronic air pollution, and polluted rivers. 'Few places and few species, no matter how remote or how special, have escaped the untoward and insinuating effects of oil and petrochemicals', Doyle argued. [157] It was clear that the Group would have to cope with very vocal criticisms as long as it worked in the oil industry.

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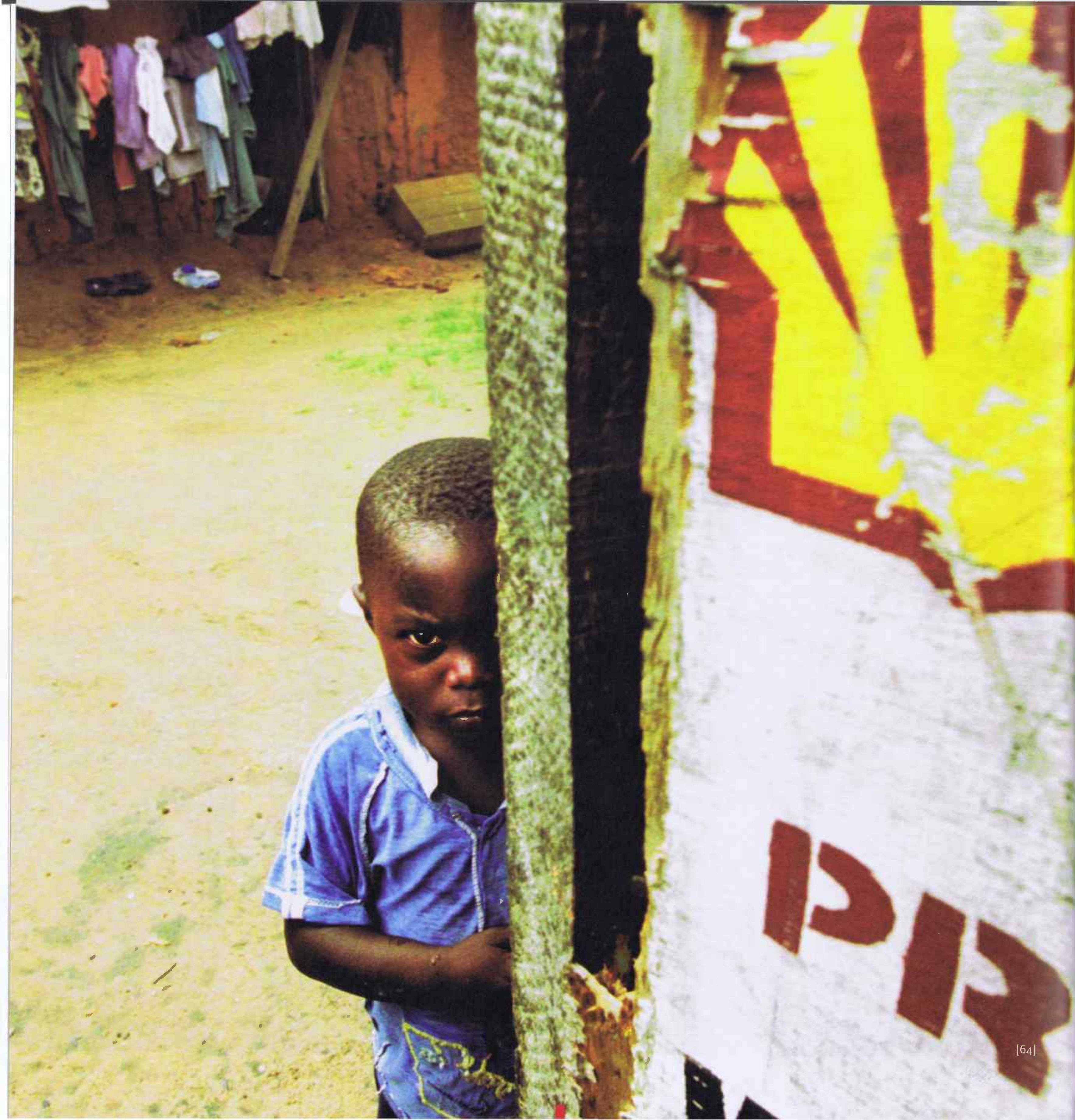
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Conclusion

The last quarter of the twentieth century saw the rise of non-governmental organizations (NGOs) putting pressure on companies to pay attention to specific issues they particularly cared about, and a public increasingly willing to respond as consumer to allegations of company wrongdoings. At the same time, communications became more global and much faster, enabling the media to feed the public with daily events from all over the world. In the 1970s the left-wing public in the western world was critical of companies, in particular multinationals, but still had faith in governments and international institutions to act on behalf of the general cause and keep companies in check. In the 1980s this confidence in the role of governments disappeared. Only the NGOs still seemed to have the trust of the public. The attitude of the public towards companies became contradictory. On the one hand, large parts of the public remained suspicious of big companies, on the other they expected them to find solutions for problems governments had failed to solve. Shell, as a very visible and large organization, fully experienced the pressure of these contradictory demands.

Shell companies were well aware of the importance of a good reputation for their ability to operate. They realized that ultimately a good reputation depended on good behaviour. In large international enterprises such as Shell it was inevitable that sometimes managers did not act appropriately. Therefore Shell formulated business principles to set out the standards it expected of its staff and devised internal systems to deal with those who did not comply with the rules. The public also expected higher standards from companies and governments than in the past. The handling of the boycott of Rhodesia, though undeniably complicated by different sets of national legislation in Britain and South Africa, did not show the oil companies or the British government in a very positive light.

More difficult to deal with, however, were issues where Shell companies and the public had different views or different perceptions. This was the case with Shell's presence in South Africa. While critics wanted Shell to leave the country to help undermine the apartheid regime, Shell remained convinced of the importance of political neutrality, though eventually it openly condemned the apartheid system. In the 1970s Shell expected that it could sway public opinion by providing extensive information and explaining the trade-offs that had to be made when dealing with complex issues. From the long-running dispute about South Africa, Shell learned that it also had to show emotions, making clear that it cared about the people it worked with and shared concerns about the environment. Understanding the importance of being more in tune with public expectations, however, was not the same as being able to forestall new issues coming up and making the headlines. In the dispute about the sinking of the Brent Spar, Shell experienced how action by professional NGOs combined with spectacular media coverage unleashed so much public emotion that it could upset its own careful planning founded on sound scientific evidence. It was attacked over its environmental performance in its operation and over the use of violence against local people by the Nigerian government. Many critics simply did not accept Shell's point of view that it could not interfere with the way the government ran the country or with the way the legal system functioned.

In response to rising criticism Shell decided on a very public overhaul of its reputation management in 1996. NGOs were invited to enter into a dialogue with Shell and find solutions for complex issues. In the process Shell accepted a greater responsibility for human rights issues and sustainable development. In their interaction between company and public both the pressure groups and Shell became increasingly professional and sophisticated. As a result staggering amounts of information, some of it externally certified, became available about the company, amounts that would have appalled Henri Deterding and Marcus Samuel.[158] The public, however, remained sceptical.

NGOs also challenged the Group on its environmental policies, and here the company could get caught in the crossfire of different national viewpoints. In 1995, for instance, when Greenpeace attacked Shell over the announced sinking of the Brent Spar, Britain agreed with the sinking, but some continental European countries were against it. NGOs also accused the Group of having double standards in protecting the environment. Following national regulations was not considered enough; the Group ought to have global standards, and very much higher ones. Other NGOs supported inhabitants of the Niger delta in their protests against Shell's oil production there, and against the fact that the population suffered from the negative effects of the oil production on their environment without benefiting from the profits. The continuing serious problems in the Niger delta had a very negative impact on the Group's reputation. Under the influence of the NGOs, Shell reformulated its business principles, in 1997 for the first time including human rights.

At the beginning of the twenty-first century rising oil prices and mounting concern for energy safety combined in a tougher attitude of national governments towards the oil industry in their countries, which led to a number of nationalizations. Shell responded with the same practical and flexible approach it had used so effectively in the past.

Running a cross-border business The Group's dual nationality had political and fiscal advantages, but it also posed formidable managerial challenges. Initially, Shell's organization was held together by a fairly small team of top managers with interlocking directorships on the boards of parent companies, holding companies, and main operating companies. Around them a wider group of internationally active managers developed, running operating companies or concentrating on specific topics of vital interest to the business, such as geology in the case of Erb, or technology in the case of Pyzel. These managers moved from one subsidiary to the next, creating a close network within the Group. This simple hierarchical model worked well enough in the globalized world before 1914, with its highly integrated markets. However, the structure came under serious strain from the Group's rapid expansion and then the economic disintegration caused by the First World War. Restrictive legislation, rising taxation, tariff barriers, protectionism, and the appearance of national oil companies all worked to disrupt the Group's global strategy and challenge the organization built to execute it. Asiatic Petroleum, for instance, now had to form separate marketing subsidiaries for the countries in which it operated, creating an additional layer in the organization. Moreover, Asiatic needed managers versed in local circumstances to run them. The proliferation of operating companies altered the managerial balance within the Group, central offices finding it increasingly difficult to retain their grip. The growing number of agreements and joint ventures with other oil companies which followed in the wake of Achnacarry added further complexity.

This fundamental problem should have been addressed much earlier than it was. During the 1920s, Deterding resisted changes, wanting to keep close control over the whole enterprise.