Can Shell Make Good in Nigeria?

Costly lessons in losing the social license to operate (and trying to get it back)

By Wayne Visser

Anyone who works in sustainable business or CSR will probably have cut their teeth on the classic (some would say infamous) case study of 'Shell in Nigeria'. What makes it such a compelling case is that it has yet to reach any final resolution. Ever since Shell was tarred with the brush of bad publicity surrounding the execution in 1995 of environmental activist Ken Saro-Wiwa by the Nigerian government, it has struggled to regain its social license to operate.

My first direct encounter with Shell in Nigeria came a few years after the incident, when I was running KPMG's sustainability practice in South Africa. In fact, KPMG's sustainability practice in the Netherlands had worked closely with Shell to pioneer its triple bottom line reporting approach, and the KPMG Norway practice was working with Shell in Nigeria on sustainability reporting and environmental management.

Two things stick in my mind from that time. One was being rather puzzled by the failure of Shell Nigeria's HSE (health, safety and environment) reports to mention the Saro-Wiwa fiasco, which was still very much at the forefront of protests and boycotts against Shell, both in the country and abroad. If ever there was an elephant in the room!

The second recollection was a trip to Nigeria by one of my team members to do an audit on Shell's ISO 14001 system. When she returned, I was aghast to learn that, at one point, the Shell vehicle had been surrounded by an angry mob threatening violence, after which the team travelled to Shell sites by helicopter and with an armed guard.

I have subsequently visited Nigeria five times and had a chance to speak to many of those working on corporate responsibility in the country, including a number of Shell's national sustainability managers. As a result, I am more convinced than ever that the case holds vital lessons for other companies in how to be more accountable in the 21st century.

Lesson 1: Perception is reality

Whether Shell was actually in any way complicit in Saro-Wiwa's execution did not make any difference. The fact that they made a plea to the Nigerian government for clemency did nothing to change the public perception – shaped largely by activist NGOs like Greenpeace and organisations like The Body Shop – that Shell must be guilty of serious human rights and environmental abuses.

Lesson 2: If you lie with dogs, you wake up with fleas

One of the reasons that Shell was targeted was that it was (and continues to be) 'in bed' with the government, which today is a majority shareholder in the company. 95% of Shell's revenue after costs goes to the Nigerian government. Rightly or wrongly, stakeholders believe that, given these close ties, Shell is little more than a puppet of a corrupt government.

Lesson 3: Beware the resource curse

Despite Nigeria's vast natural wealth, the majority of its people remain poor. Shell paid $42 billion in revenues to the Nigerian government between 2008 and 2012. A further $5.2 billion was paid in royalties and taxes in 2012. Due to the greed and corruption of its politicians, very little of this money is spent on human development. Poor governance and transparency makes the economic and social contribution of companies as effective as moving around the deck chairs on the Titanic.

Lesson 4: Penalties for losing a social license to operate are high

Shell estimates that, of the 26,000 barrels of oil spilled in 2012, 95% was the result of sabotage and oil theft. Besides these serious economic and environmental impacts, the safety and security of Shell staff are also compromised. In 2012, two contractors were killed in an armed attack while assessing the remediation of an oil-spill site, and in 2010, 26 employees and contractors were kidnapped (down from 51 in 2009).

Lesson 5: Environmental damage is costly

Shell is installing equipment that will reduce gas flaring from its facilities at a cost of $2 billion, in addition to the $3 billion already spent to reduce flaring. In order to lessen its operational spills, Shell constructed a $1.1 billion replacement pipeline. At the beginning of 2012, there 316 sites in need of remediation from spills (they had cleaned nearly 80% by the end of the year).

Lesson 6: Trust begins with transparency

Shell actively promotes and participates in the Extractive Industries Transparency Initiaitve in Nigeria, in which all payments to government are publicly disclosed. Besides this, Shell as created a public website which tracks the company's response to, and investigation and clean-up of, every spill from its facilities, whether operational or the result of sabotage.

Lesson 7: Communities expect more than promises

Shell uses a Global Memorandum of Understanding (GMoU) model (introduced in 2006) to formalise its community contributions. Communities identify their own needs, decide how to spend the funding provided by SPDC and its joint-venture partners, and directly implement projects. By the end of 2011, Shell had signed and implemented agreements with 290 communities, of which 30% are around their operations in the Delta. In 2011, 596 projects and $79 million was channelled through the GMoUs.

Lesson 8: Reward innovation and best practice

In 2012, Shell received recognition in Nigeria's Social Enterprise Reporting Awards (SERA), run by Trucontact, for its $27 million Kobo Fund, which enables small Niger Delta contractors to access loans needed to finance the supply of goods/services to Shell. The company is also providing $6 million for the UN-led Global Alliance for Clean Cooking Stoves, which aims to supply 100 million homes by 2020.

Lesson 9: Go beyond philanthropy

Despite spending over £31 million on community projects in 2012, Shell's commitment to sustainability in Nigeria is demonstrably focused on reducing the negative environmental and health impacts of their core business operations, while increasing of the positive economic and social benefits.

Lesson 10: Support better policy

In recent years, the Nigerian government has moved to legislate CSR, including a requirement to spend no less than 3.5% of gross annual profits per year on CSR. Shell would do well to oppose policy developments like this, which only serve to embed a philanthropic mode and act like a tax. Far better would be to encourage better legislation (and more importantly, better enforcement) on critical issues like labour rights, environmental management and anti-corruption.

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