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SHELL, NIGERIA AND THE OGONI. A STUDY IN UNSUSTAINABLE DEVELOPMENT: III. ANALYSIS AND IMPLICATIONS OF ROYAL DUTCH/SHELL GROUP STRATEGY

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In the first two papers of this trilogy we explored the history of the Royal Dutch/Shell group both internationally and locally in Nigeria. We described a catastrophic failure in relations with the Ogoni and the consequent fall-out with NGOs and opinion formers more globally. In response to these events Shell embarked on a revision of its business principles and initiated a multi-million dollar exercise in stakeholder outreach and communication. We also explored the limitations of a purely instrumental approach to 'stakeholder management' in Nigeria and suggested that a rights-based approach might provide a more useful framework for managing relationships and achieving reconciliation between Shell and the Ogoni. In this third paper of the trilogy we explore Shell's current approach to strategy formulation and implementation in the context of what this means for Shell's ability to pursue the ideal of sustainable development. We apply two models for testing the level of integration of business strategy with sustainability and we observe that, whilst Shell's business principles and corporate strategy now embrace notions of market sensitivity and internal and external accountability to an unprecedented degree, the company has yet to maximize opportunities arising from its approach to sustainability and stakeholder responsiveness at the business unit level in Nigeria. Copyright © 2001 John Wiley & Sons, Ltd. and ERP Environment.

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STRATEGIC MANAGEMENT AT SHELL: 1995–2001

We believe it is possible to discern significant changes in Shell's approach to strategy over the period 1995–2001 and to link these changes directly to issues of economic globalization and important new drivers in the marketplace – including the need for greater responsiveness to the needs of customers and other stakeholders.

In this context de Wit and Meyer's text *Strategy: Process*, *Content*, *Context* (1998) provides some helpful distinctions for considering the changing nature of different dimensions of strategic management in large corporations such as Shell. They refer to 'strategy tensions', eight of which seem particularly relevant to the Shell story (see Table 1).

The tensions described by de Wit and Meyer are not choices, rather they are continua along which any organization must find an appropriate and effective balance for its current strategy. All organizations need logic *and* creativity, planning *and* incremental adjustment etc. The issue is what mix, where and when. In our view there is little doubt that Shell's position has changed since 1995 with respect to a number of these tensions and indeed it may be argued that the events of that year helped accelerate some of those changes. We will now examine how Shell maps across these different dimensions of strategy and where in the 'tension continuum' the organization now sits. The dimensions group neatly into pairs and we have chosen to discuss them that way for ease of analysis.

Strategic thinking and organizational context

If we consider the questions of logical *versus* creative thinking and control *versus* chaos as an organizational context, there is no doubt that for most of the 20th century Shell's organizational culture and managerial mindset was heavily influenced by rational or 'scientific' thinking. The company's formative years spanned the close of the 19th century and the early decades of the 20th century when the management theories of Henri Fayol and Frederick Winslow Taylor helped establish the dominance of rationalist, command and control approaches to management (Wheeler and Sillanpää, 1997). Moreover, as we described in the first paper of this trilogy Shell always prided itself on its technical competencies and as a company has long been dominated by the somewhat technocentric thinking of the engineering profession (Boele *et al*., 2001a).

In 2001, it is clear that the technical and the rational still dominates Shell's approach to strategic thinking, and control is still a major element in Shell's approach to performance management. Shell's Sustainable Development Management Framework (SDMF) and Road Map are conceptually rational and appear to rely heavily on controls – for example the symbolically important and very practical Letters of Representation by which senior Shell officers assert their commitment to Shell

Table 1. Strategy tensions and related perspectives in strategic management (adapted from de Wit and Meyer, 1998).

Dimension	Tension	Strategic perspectives
Strategic thinking	Logic *versus* creativity	Rational *versus* generative thinking
Organizational context	Control *versus* chaos	Organizational leadership *versus* organizational dynamics
Corporate level strategy	Responsiveness *versus* synergy	Portfolio *versus* core competence
Business level strategy	Markets *versus* resources	Outside-in *versus* inside-out
Strategy formulation	Deliberate *versus* emergent	Planning *versus* incremental adjustment
Strategic change	Revolution *versus* evolution	Discontinuous *versus* continuous change
International context	Globalization *versus* localization	Global convergence *versus* international diversity
Organizational purpose	Profitability *versus* responsibility	Shareholder value *versus* stakeholder values (sic)

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business principles and business integrity (Boele *et al*., 2001a; Shell International, 2001a). However, it is obvious also that Shell now recognizes some of the limitations of rational planning and the attempt to maintain absolute control – highlighted most starkly by their experiences in 1995.

Shell's public reporting, advertising and general communications are now well known for their inclusion of alternative viewpoints and their posing of values-based dilemmas (Shell International, 1998, 1999, 2000, 2001a). It would seem generative dialogue with stakeholders does now play a part in Shell's strategic approach. Arguably this is in line with the company's well-known interest in scenario building described in its Corporate Strategy Board Research 'Coda' which has used external opinion formers and fora such as the World Business Council on Sustainable Development to help provoke internal debate and learning (Shell International, 2001b), but post-1995 Shell's approach represents a much more formalized and conscious attempt to open up myriad conversations with the corporation under the general heading 'Tell Shell'.

To any student of the 'new sciences' and chaos and complexity in organizations Shell's difficulties in trying to control both internal systems and external debate with stakeholders in the mid-1990s would not have come as a total surprise. The more reliance placed on rationality and technical control systems, the greater the likelihood that external factors will intervene to threaten the established equilibrium (Gleick, 1987; Levy, 1994; Stacey, 1996).

In *Leadership and the New Science*, Meg Wheatley (1999) challenges conventional notions of leadership and organization with reference to the sciences of quantum physics, self-organizing biological systems and chaos theory. Wheatley observes that the old mechanistic assumptions about how the world may be analysed and controlled no longer hold. 'Reality' in sub-atomic physics, biology and chemistry derives more from the processes and relationships that exist between different entities than in any reductionist description of the entities themselves. Wheatley notes that the history of management theory has been dominated by mechanistic, i.e. Newtonian and Cartesian, thinking, linking planning to prediction, cause to effect, but in today's complex world (as in quantum physics), describing relationships, probabilities and possibilities is more valuable than attempting predictions based on previous behaviour. She cites Fritjof Capra's (1996) quotation of physicist Henry Stapp asserting that even elementary particles are 'in essence a set of relationships that reach outward to other things'.

It is doubtful whether Shell is quite ready for such post-modern analysis, but at a practical level these observations do underscore the importance of considering both the external business environment and internal resources and competencies in *strategy formulation* – that is to say both the 'outside-in' and 'inside-out' perspectives of business strategy. This point has been made particularly effectively by Ed Freeman in the context of stakeholder theory (Freeman, 1984) and by Karl Weick (1987) with respect to the importance of 'enactment' i.e. engagement with the external environment for effective strategy-making. From a power and resources perspective much the same point has been made by Pfeffer and Salancik (1978). However, equally important is the consideration of internal relationships and capabilities, typically associated with the 'resource based view' of strategy (Barney, 1991; Grant, 1991; Hamel and Prahalad, 1993, 1994). We will now consider these factors in further detail in the context of Shell's approach to corporate and business level strategy.

Corporate and business level strategy

According to de Wit and Meyer, in corporate and business level strategies the tensions are between a responsiveness *versus* synergy (portfolio or 'core competence') approach at corporate level and a market *versus* resource-based (outside-in or inside-out) approach at the business level.

Shell has a hybrid core competency/portfolio approach to corporate strategy. The existence of clearly distinguished business areas requiring quite different skill sets e.g. oil

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exploration, gasoline retailing and chemicals manufacturing has long been a hallmark of Shell's group strategy. In the 1970s this led to significant attempts (subsequently abandoned) to diversify well beyond oil and chemicals (de Wit and Meyer, 1998). However, the core of Shell's business has always been, and remains that of an integrated oil major with well developed, fully globalized upstream and downstream operations. And to the extent that the downstream gas and power business is now shaping up as a success story, a significant debt is owed to the leveraging of core competencies in the exploration and production and oil products areas.

The other two business areas in the portfolio: chemicals and 'other' (which now includes all the new corporate ventures in renewables, hydrogen cell technology as well as internet and capital ventures) were not (in mid-2001) in the same league either in strategic or business performance terms, but it was clear that in line with Shell's portfolio approach all five areas had well separated management accountabilities and performance metrics. The language which Philip Watts (newly appointed as the Chair of the Committee of Managing Directors) used to describe the four key drivers of corporate strategy was explicit on this point. In a presentation to financial analysts on 2 August 2001, Mr Watts described these drivers as: (i) capital discipline, i.e. competition between businesses for cash; (ii) portfolio management, i.e. active buying, selling and 'swapping' of assets; (iii) operational excellence, i.e. cost leadership, and (iv) personal accountability within a performance culture (Watts, 2001).

If Shell's approach remains a hybrid at the corporate level, at the business level we see a definite shift from the internal to the external – largely based on the new realities of the global energy economy and the importance of new market opportunities which will unfold in coming decades. This new external focus has profound implications for the internal capabilities which need to be developed in Shell.

Writing in late 1998, Arthur D. Little energy specialist Christopher Ross described three possible scenarios for the global energy industry in 2025. The first of these scenarios was termed 'orchestrated supply' where, a new geopolity or global governance model emerges to 'design and enforce global standards' to protect the environment and preserve society. Such an outcome would penalize carbon-inefficient fossil fuels such as oil and coal and require major breakthroughs in renewable energy technologies, e.g. biomass, solar and fermentation. The second scenario sketched by Ross was based on 'technology solutions' which might become sufficiently attractive to consumers that markets will reshape and evolve to deliver a significantly less energy intensive future. The outcome under this scenario would be less restrictive for the oil industry than the 'orchestrated supply' scenario, but transportation, communication and power generation in the future would look very different to the present day. The third scenario was somewhat bleaker, invoking a Malthusian future where economic growth and market transformation might be hindered by inflexibility of consumers, lack of technological innovation and limits to natural resources.

Predicting that no one of these scenarios would emerge in its pristine form, Ross drew some general conclusions on what sorts of capability would need to be developed by leading companies under each scenario. In all three cases the importance of partnering and/or relationship building with key stakeholders featured strongly, and, depending on the scenario, successful oil companies of the future would have to excel in technological innovation and deployment and the maintenance of a flexible portfolio of opportunities. The overriding themes were 'rapid learning, technology deployment, innovation and global reach'.

The new futures that Ross described and the organizational capabilities required to successfully navigate them were well known to Shell in the mid-1990s. In an interview given in 1998, then Chair of the Committee of Managing Directors, Mark Moody-Stuart described the process which Shell went through in changing its business principles and deciding to transform its corporate culture (Moody-Stuart *et al.*, 1998). Mentioning Nigeria and

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the Brent Spar events more as reference points than causes of fundamental change, Moody Stuart said ‘when people began to think about it, they recognized that there were things we needed to clarify and put right, but also things we can be proud of’.

Moody-Stuart went on to relate the Shell transformation more to customer expectations and sustained profitability than particular reputational or external threats e.g. global climate change. Most importantly he described the business benefits of Shell’s transformation in terms of liberating creativity, higher motivation and better alignment of staff: ‘I believe our transformation’s biggest contribution to our business will be the way it releases people’s creativity and speeds their response to what the customer wants, making our everyday business truly excellent while identifying the new opportunities’. It seems clear from these sentiments that Shell’s shift in business level strategy has been mostly about focusing on the external while generating the required internal competencies – ‘stretch and leverage’ in Hamel and Prahalad’s terms (1993) – to deal with the new and far less predictable global energy markets of the future.

Strategy formulation and strategic change

Consistent with the maintenance of a hybrid corporate strategy and the shift in business level strategy to a greater external focus, Shell’s approach to strategy formulation and strategic change has also evolved. In former times, typical of a producer-led mentality, Shell’s strategic planning process was highly formalized, deliberate, cyclical and budget-based (de Wit and Meyer, 1998). In mid-1999 the Committee of Managing Directors adopted a new strategic management system which was designed to be iterative with the five principal business areas and become increasingly ‘real time’. Business principles and corporate values issues were considered a consistent overlay rather than drivers of the process. Return on Average Capital Employed (ROACE) and increasing shareholder value remained key performance metrics, but strategy making at Shell was to place increasing importance on market factors; in essence strategy at Shell shifted from being producer led to market led (Decyk, personal communication).

In a company with such enormous fixed assets, strategic change is unlikely ever to be revolutionary or discontinuous, and the hierarchical, ‘comfortable bureaucracy’ organizational style associated with Shell for most of the 20th century may take many more years yet to eliminate. Anthony Sampson (1995) quoted a Shell human resource professional in 1993 saying ‘We have to choose between the control model of the past, and the organic model of the future. If you rely on control you won’t get as much out of managers as before; but the organic model can be dangerous – unless you believe that people are naturally virtuous’. Despite cultural resistance to discontinuous change, we believe that the changes in Shell’s asset mix in the period 1995–2001 (especially in chemicals), the removal of billions of dollars of operating costs and a significant shift to performance based pay and rewards systems are indicative of change on a very significant, if not revolutionary scale (Moody-Stuart, 2000; Watts, 2001).

Thus we conclude that Shell’s approach to strategy formulation and strategic change are now significantly different to pre-1995; planning has been replaced by a more emergent and incremental approach to strategy formulation and continuous change has been significantly accelerated.

International context and organizational purpose

The past and current emphases in the six dimensions of strategy described above are for the most part discernible and relatively consistent. In the twin areas of international business diversity and organizational purpose Shell’s new strategic orientation remains ambiguous.

From all the evidence, including recent statements to the investment community (Moody-Stuart, 2000; Watts, 2001) it appears that Shell remains a company highly focused on shareholder value. This is demonstrated by the clarity of targets on cost efficiency, staff cuts and returning long-term value to shareholders through dividend policy and share

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buy-back schemes (Watts, 2001). However, Shell has also distanced itself from the notion of maximizing short-term shareholder value and appears highly aware of the importance of reputation and brand identification to competitive positioning, citing these two factors alongside technological innovation and 'reach' as the four key elements of 'competitive edge'. The company is especially proud that at the retail level Shell is the preferred brand in more than 30 countries worldwide compared with less than five countries for each of its main competitors: Esso, bp, Mobil and Texaco/Caltex (Watts, 2001). In global brand surveys Shell remains the number one choice of motorists (Shell International, 2001a).

Historically, intangible assets like reputation have always been important to Shell but they were perceived to derive as much from the group's technical prowess as from its ability to maintain key relationships (Boele *et al.*, 2001a). The most important relationships were those that the group maintained with its investors and various governments around the world, many of whom were joint venture partners. And like most companies with proud reputations Shell was always aware of the notion of risk management, including the need to manage corporate reputation for reasons of good corporate governance and long term commercial performance.

But post-1995 it would appear that a significant shift occurred in corporate attitudes and at least a partial re-invention of corporate purpose and values. Work commissioned by Shell post-1995 demonstrated that the group had lost the confidence of key stakeholder groups in those areas of oil industry reputation that were considered most important by opinion leaders, i.e. environmental protection, the development of alternative energy, applying technology, profitability, investment and community responsibility (May *et al.*, 1999). Moreover the conclusions of this research were couched explicitly in terms of threats to profits and shareholder value: 'A weak or poor reputation can threaten goodwill, co-operation and ultimately the company's license to operate. Such a threat now faces Shell. Its reputation is mixed, with some areas of important strength. But it also has negative associations which, if left unchecked, are likely to undermine the company's ability to operate smoothly and efficiently – in other words, its ability to serve its stakeholders and, in particular, its shareholders' (MORI, 1997 cited in May *et al.*, 1999).

Shell's revised business principles retained a fairly conventional set of objectives for the group: to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses (principle 1), but direct responsibilities to five named stakeholder groups were listed (principle 2) along with more specific principles relating to questions of economic and political engagement, integrity and Health, Safety and Environmental management, the community, competition and communications. Moreover, as we noted in the second paper of the trilogy (Boele *et al.*, 2001b) human rights were explicitly recognized for the first time. Post-1995, relationships with opinion formers and direct stakeholders, e.g. local communities and end-consumers, were given greater importance in scenario building and formal strategy making, and the sustainable development 'Management Framework' and 'Road Map' were published, thereby encapsulating the notion that Shell must in future create value for shareholders, for society, i.e. other stakeholders and for the natural environment.

Notwithstanding these apparent changes, we have drawn attention elsewhere to the continuing stark differences in corporate rhetoric and behaviour in Shell Nigeria compared with the group level – even after five years of corporate transformation (Boele *et al.*, 2001b; Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*), and we have concluded that 'Given the size of the investment Shell has made in its corporate repositioning since 1995, the tolerance of reputational risks associated with the Nigerian operation can only be permitted for reasons of significant institutional blockage and/or some higher purpose/organizational imperative' (Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*). In the context of Shell strategy, this inconsistency can only be explained by a strategic approach

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based on (i) international diversity rather than global convergence and (ii) tolerance of ambiguity in the values and purpose of the organization. Indeed it could be asserted that *inconsistency* in organizational values and purpose in Shell businesses across the globe is the *de facto* strategy – intentional or unwitting.

This raises the disturbing possibility that despite the increasingly strong articulation of corporate values from the centre, it may be the move away from a more control-oriented approach to strategy and a greater encouragement of diversity in managerial approach internationally which permits perpetuation of the Shell–Ogoni conflict.

In the next part of this paper we apply two models which may be used to examine in more detail the way in which Shell's general strategic approach maps onto principles of sustainable development and stakeholder responsiveness. One model (Sustainable Enterprise Academy, 2001) addresses primarily strategy *formulation* and the other (Wheeler *et al.*, 2000) addresses strategic *implementation*.

MAPPING SUSTAINABLE DEVELOPMENT AND STAKEHOLDER RESPONSIVENESS ONTO STRATEGY FORMULATION AT SHELL

Johnson and Scholes (1999) define three main elements of strategic management: (i) strategic analysis, (ii) strategic choice, and (iii) strategic implementation. Strategic analysis includes consideration of the business environment, expectations and the purpose of the firm, and resources, competencies and capabilities. Strategic choice involves consideration of the bases of choice, the options, and evaluation and selection of strategic direction. Finally, strategic implementation involves organisational design, resource allocation and the management of change. The three elements should be in dynamic equilibrium for strategy making to be effective. The model also infers that without implementation, strategy formulation (analysis and choice in Johnson and Scholes terms) is entirely irrelevant. It is in the implementation that the true impact of strategy emerges.

One powerful model which has emerged recently which attempts to integrate sustainable development and stakeholder responsiveness with most components of strategic analysis and strategic choice (as defined by Johnson and Scholes) is that of the Sustainable Enterprise Academy (2001). The model was developed by ten leading academics and commentators specifically for senior executive learning purposes based on original work by Stuart Hart of the University of North Carolina. It has been successfully employed in a number of business leader environments as a means of analysing strategic options that contribute both to sustainability and to shareholder value. The model addresses all elements of the strategic analysis and choice in the Johnson–Scholes model except perhaps for the question of corporate purpose, to which we shall return in part three of the paper when we discuss strategic implementation. The model is depicted in Figure 1.

If we explore the Hart/SEA model from the perspective of Shell International, a rather

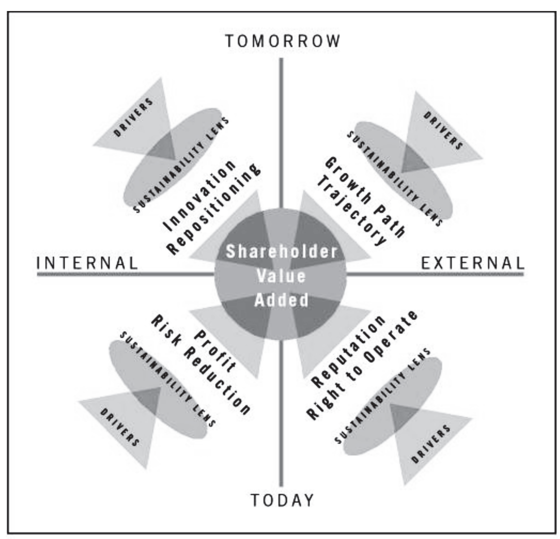

Figure 1. The Sustainable Enterprise Academy (SEA) strategic framework for sustainable shareholder value (SEA, 2001). Reproduced by permission of York University, Canada.

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positive picture emerges. In terms of strategy formulation (analysis and choice), Shell International is making significant progress in all dimensions: internal and external, immediate and future focused.

Like most large companies, Shell has been especially active in the bottom left quadrant, driving out environmental inefficiencies e.g. gas flaring, and risks, e.g. contaminated land, through implementing new policies and systems, e.g. group-wide implementation of ISO14001 (Shell International, 2001). Eco-efficiency has long been recognized as a win–win environmentally and economically and historically this is where corporations, including Shell, have been most active in adding sustainable shareholder value (Hart, 1995, 1997; Esty and Porter, 1998).

Unlike some of its competitors, Shell has sought to actively leverage its competencies in oil and gas exploration and oil products in order to more fully exploit the future potential represented by business opportunities in the top left quadrant of the model. Helped by the lower costs and lower environmental impacts of gas-fired power generation, Shell's downstream gas and power business has thrived – showing 59% second-quarter earnings growth in 2001 (Watts, 2001). Moreover, backed by new technologies in liquid natural gas exploitation, storage and distribution, this aspect of Shell's business is a significant leap ahead of more carbon intensive oil- and coal-based power systems, both economically and environmentally.

Perhaps more interestingly from a sustainability perspective, Shell's investments and strategic partnerships in hydrogen and fuel cell technologies, wind and solar power represent clear strategic choices with respect to longer-term energy solutions. We should note that the investments in these technologies are relatively small compared with the overall scale of Shell's current capital investment plans. According to Shell's Securities and Exchange Commission filing in 2001 (Shell International, 2001d), a total of 98% of the group's capital expenditure in 2000 was devoted to the four main business areas. This included $3801 million for exploration and production, $1258 million for oil products, $726 million for chemical and $288 million for downstream gas and power compared with just $136 million for 'other' corporate areas, which include alternatives and renewables.

The shift from eco-efficiency to innovation (bottom left to top left in Figure 1) resonates closely with the neo-Schumpeterian thinking of Hart and Milstein (1999)on the need for 'creative destruction' of old inefficient industries and their replacement with entirely new alternatives, so it is relevant that Shell divested its coal business in July 2000, that the company is aiming for 50 gigawatts of installed wind energy capacity and that it is predicting profitability in its solar business by 2004 (Shell International, 2001b). Through its joint venture with Siemens, Shell is aiming to be the first- or second-ranked provider in solar energy solutions in Europe and the US. In support of these nascent businesses, the company intends investing a further $0.5 to $1 billion between 2001 and 2005 (Shell International, 2001b).

Shell's investments and partnerships in renewable and alternative energy technologies also allow the group to start exploring the top right quadrant – strategic business opportunities linked to entirely new, unserved markets – for example independent, off grid energy options for rural communities both in the developed and the developing world. Shell is aiming for up to 10% of its solar business to be serving rural markets by 2004 (Shell International, 2001b). This provides some evidence that Shell is thinking seriously about such markets and reacting to the compelling evidence that demographic and environmental trends will necessitate that power is provided sustainably to the world's rural poor in coming decades if climate change catastrophe is to be averted (Shell International, 2001a).

A more complex picture emerges both top right and bottom right of Figure 1 when we consider Shell's exploration of win–win business opportunities from an external perspective. At one level, Shell's positioning with respect to brand loyalty in Latin America, Asia Pacific and Africa (Watts, 2001) may serve the company extremely well for new

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strategic opportunities, e.g. in retail and community energy solutions in the developing world. Global consumer attitudes to Shell have also become quite favourable in recent years (Boele *et al.*, 2001a). Moreover, through partnerships with actors such as Siemens (solar) and Ballard Power Systems and Westcoast Energy (hydrogen fuel cell technology), Shell has demonstrated its ability to engage business partners and other stakeholders in pursuing renewable and alternative energy technology solutions. Between 6 July and 4 August 2001, of ten major corporate announcements, six dealt with financial performance and business successes, e.g. in exploration, but no less than four dealt with new strategic partnerships in renewable and alternative energy (Shell International, 2001b), so it would appear that Shell has become the business partner of choice for a range of stakeholders in new energy market development.

Yet, there remains a troubling factor for Shell which is that in the minds of many influential opinion formers, particularly those in the development, environmental and human rights movements, Shell still has something to prove. For many in this group, Shell's corporate performance has not been rewarded by reputational rehabilitation (Arnold, 2000). There is, as yet, no evidence that Shell can fully match bp in the area of community development, and it is not fanciful to surmise that this disconnect is linked directly to the events of 1995 and therefore to conclude that only when Shell can put the issue of Nigeria completely to rest will their capabilities for stakeholder relationship building be fully appreciated. This is extremely important from a reputational and licence to operate perspective (bottom right quadrant of the model) because if bp continues to win control of sensitive resources such as Alaska due to its superior reputation on community development (Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*) then Shell will be at a competitive disadvantage and its investors will suffer.

MAPPING SUSTAINABLE DEVELOPMENT AND STAKEHOLDER RESPONSIVENESS ONTO STRATEGIC IMPLEMENTATION AT SHELL

In 1984 Walter Kiechel wrote an article in *Fortune* magazine describing a study in which it was found that only ten per cent of formulated strategies were actually implemented by the businesses which produced them. Apparently Tom Peters' response was that this figure was 'wildly inflated' (Mintzberg *et al.*, 1998). Notwithstanding Shell's good showing in the Hart/SEA model with respect to integration of sustainability and stakeholder issues in strategy formulation (analysis and choice) it is therefore now important to examine how Shell converts this to implementation both at the corporate and business unit levels.

In a deductive theoretical and empirical study based on ten North American companies Wheeler *et al.* (2000) combined the classification of ten strategic management schools developed by Mintzberg *et al.* with the Johnson–Scholes model (Figure 1) and concluded that, whichever school (or combination) of strategic management approaches was applied by companies, concepts of sustainable development may be concluded to be manifested in strategic *implementation* where the following hold.

- Concepts of sustainability, e.g. environmental quality and social justice, feature alongside economic factors in company mission and values statements. This resonates with the importance of purpose, vision and leadership in the effective formulation and implementation of strategy which is common to every strategy school.
- Companies have systems for linking their future competitive advantage and economic success with the environmental and social values of their customers and other stakeholders. This resonates with the centrality of market economics to both 'prescriptive' (i.e. analytical and planning based), and 'descriptive' (i.e. responsive and learning-based) approaches to strategy as classified by Mintzberg *et al.* (1998).

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- Companies have systems for detecting, assimilating and responding to economic, environmental and social pressures and other important cultural influences. This resonates with conventional strategic analysis tools, e.g. SWOT, PEST and five forces, in the prescriptive schools as well as the stakeholder sensitive systems contained in more descriptive approaches.
- Companies develop systems, structures and routines in business units and divisions which reflect the importance of environmental and social, as well as economic, criteria to the corporation, e.g. in investor relations, human resources, sales and marketing and supply chain management practices. Potentially married to financial control and quality management programs, this resonates with important elements of the descriptive schools, e.g. resource allocation and control, as well as with the stakeholder-embracing assumptions of several of the more descriptive schools.
- Companies develop measurement systems and management information/communication systems that reflect the importance of social and environmental, as well as economic, issues and other intangible assets, e.g. knowledge, loyalty and trust. This resonates with the 'balanced scorecard' and other components of the control of performance in prescriptive strategies and with the need for effective learning and iterative communication in some of the more descriptive strategies.

Wheeler *et al*. (2000) used these 'macro indicators' for integration together with general observations by European consultancy SustainAbility (Beloe, 1999) and empirical observations of ten North American companies to derive a framework for assessing the level of integration of principles of sustainability and stakeholder responsiveness with business strategy. The framework embraces the unifying frame for organizational learning of Crossan and co-authors (1997), i.e. intuiting, interpreting, integrating, institutionalizing, and it attempts to contrast manifestations of integration in four different stages of progression towards full integration (stages based on the work of Hart, 1997). The framework is depicted in Table 2.

We will now explore Shell's position on strategy implementation and compare it with the model proposed above both from both a corporate and a business unit perspective with particular reference to Shell Nigeria. Let us take each of the main characteristics in turn.

Corporate purpose and mission

There is little doubt that at the corporate level Shell scores well on this characteristic, explicitly institutionalizing the group's responsibilities to sustainable development and to stakeholders other than shareholders in its business principles. Although it remains to be seen whether Sir Mark Moody-Stuart's successor Philip Watts is as active as his predecessor on questions of sustainability and responsibilities to stakeholders, it would be hard to imagine the organization's leadership ever renouncing the business principles.

Based on the content of a paper prepared for the World Business Council on Sustainable Development (Watts and Holme, 1999) and a speech made in 2000 (Watts, 2000), the attitude of the new Chairman appears enlightened and positive. At the business unit level it would be unthinkable for Shell Nigeria to publicly distance itself from group business principles.

Corporate objectives

Reinforcing the purpose and mission described above, and echoing the business principles, the Shell Report 2001 (Shell International, 2001) describes group objectives as 'to engage efficiently, responsibly and profitably in the oil, gas, chemicals and other selected businesses and participate in the research and development of other sources of energy. Shell companies are committed to contribute to sustainable development'. Notwithstanding this description, two of Shell's clearest business objectives are to increase shareholder value and achieve a standard Return on Average Capital Employed

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Table 2. Framework for classifying the degree to which sustainability principles are embraced within business strategy implementation (Wheeler *et al.*, 2000).

Characteristic	No development	Emerging development	Established development	Institutionalized development
Corporate purpose and mission	No written or verbal positions discerned on sustainability issues	Internal discussion of issues, some internal policies emerge	Public declaration of position in mission, speeches by leadership	Active written and verbal advocacy of sustainability by leadership and others
Corporate objectives	Economic and commercial only	Some environmental and social objectives established	Economic, social and environmental objectives measured and performance tracked & incentivized	Economic, social and environmental objectives in MIS and reported extensively as part of holistic performance
Corporate capability for change and the development of novel markets	Negligible; no reaction to changes in market conditions	Incremental; gentle readjustment to novel markets	Leverage and stretch of capabilities possible for entry into novel markets	Discontinuous and rapid change into novel markets a core competence
Corporate capability for learning for sustainability	Negligible; mistakes repeated, opportunities missed	Early intuition and interpretation of sustainability issues through experience, metaphors, maps and dialogue with limited numbers of (mostly internal) stakeholders	Shared understanding for sustainability principles, social systems interact well and adjust across 3 dimensions of sustainability for wide groups of stakeholders	3 dimensions of sustainability part of formal and informal routines with key stakeholders, diagnostic systems, rules and procedures in place but subject to possible re-invention
Operational orientation towards customers, investors, business partners and other key stakeholders	Service and value for money transactions only; no inclusion of wider ethical issues in relationship	Environmental and social performance of company and products explored internally; external messages heard but not always embraced	Environmental and social performance of company and products routinely shared and discussed with customers and other key stakeholders	Sustainability issues an integral part of positive discourse and interactions with customers and other key stakeholders
Operational orientation to employees	Excludes wider issues beyond the employment contract	Begins to include training and awareness-raising on environmental and social/ethical issues	Involvement in environmental, social & ethical issues at work a routine part of employment and incentivized	Employees' values and ethics embraced and contribute to development of firm's culture
Operational orientation to the natural environment	Legal compliance	Basic environmental controls in place, energy and waste management etc	Environmental management system in place (possibly certified, possibly integrated with safety and quality)	EMS linked to social and economic systems within and beyond the firm, environmental impacts measured and reported real time

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(ROACE) of 14% at an assumed crude oil price of $14 per barrel. Since 1992, Shell's dividend growth has outstripped inflation and in 2000, there was a 5.3% increase in dividend to investors in Royal Dutch and a 4.3% increase for investors in Shell Transport and Trading (Shell International, 2001b).

In 2000, the Shell Report (Shell International, 2000) also described 'strategy' in each of the five main core businesses: exploration and production, oil products, chemicals, downstream gas and power and renewables. Strictly speaking these strategies would be better defined as business objectives, which if taken together would add up to a respectable set of corporate objectives. For example, the strategy for exploration and production was to 'Emphasise short-term profitability whilst maximizing long-term value through cost leadership, investment discipline and production growth. Implement strategy by means of selective investments and active portfolio management. Take advantage of the Group's relationships, reputation, technology, skills and practices to support Group companies as the preferred partner of both resource holders and other companies in the industry''. This set of objectives might have served this part of the business at any point in time over the last 100 years.

In contrast with this quite traditional set of objectives oil products was in 'new Shell' mode speaking about continuing to focus 'first and foremost – on the millions of Shell customers around the world'. During a period of major transition, the chemicals business understandably placed a strong emphasis on customer value, technology, efficiency and people development. Downstream gas and power had an asset-based set of objectives focused on commercializing technologies and satisfying energy needs (without qualification), and the renewables business objectives were mostly about technology development and the establishment of market leadership.

In 2001, these objectives were reinforced by the overall group strategy drivers described earlier i.e. capital discipline, portfolio management, operational excellence (i.e. cost leadership) and personal accountability (Watts, 2001). Clearly Shell's objectives remain heavily weighted in the economic and commercial realm but in certain areas there is an indication of a more market-based, stakeholder and environmentally oriented approach emerging. We might therefore categorize Shell's position in the framework depicted in Table 2 at between the 'emerging' and 'established' stage of development.

Corporate capability for change and the development of novel markets

We described the nature of corporate organizational change in Shell in the first section of this paper. As an organization with a well established culture and a very significant set of investments in upstream and downstream hydrocarbon businesses, it is unsurprising that progress towards development of new markets and products appears incrementally slow in comparison to the more traditional businesses. It is also clear that progress is dependent on conventional economics. As Chief Executive of the renewables business Karen de Segundo said in the Shell Report (2000), 'While it's important to provide sustainable and renewable energy sources where they are needed most, we must strive to establish a profit-making business or else we cannot continue to grow'. Nevertheless, the fact that Shell will devote between $500 million and $1 billion in the period 2001–2005 to the renewables and alternatives business and that oil products is exploring with others the future of 'sustainable mobility' does demonstrate some incrementally developing capacity in this area, and the fact that Shell plays down its ROACE and earnings expectations in the new business areas of alternative and renewable energy technology is both realistic and encouraging (Watts, 2001). In terms of our framework, we judge Shell to be at least at the 'emerging' level for corporate capabilities for re-invention and arguably very well placed with respect to becoming established in this respect in due course.

Corporate capability for learning for sustainability

We discussed Shell's attitude to external stimuli in the first part of the paper. Learning for sustainability at corporate and indeed business

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area level was undoubtedly assisted by the events of 1995 and the ensuing re-examination of Shell's relations with stakeholders and society in general. Philip Watts made this very clear while still in his former role. In a speech to Templeton College Watts explicitly acknowledged the twin impacts of Brent Spar and Nigeria on Shell's need to learn from experience (Watts, 2000). Shell has produced a 'primer' on sustainability for its managers and invested significantly in outreach to stakeholders through numerous publications, web sites and advertising (Shell International, 2000b).

Moreover, the group shows every sign of having recognized the need for change at a cognitive level through the development of corporate management frameworks and models based on principles of sustainable development. We have also seen how Shell's transformation was driven by external market and economic factors as well as by issues of reputation and stakeholder approbation. Clearly a significant number of senior Shell people were involved in the reformulation of the business principles. The level of comfort felt by Shell's leadership with sustainable development as a concept is reinforced by the liberal use of sustainable development rhetoric – even in presentations to financial analysts (Shell International, 2001b).

The degree to which sustainability learning has penetrated the core business areas and indeed all the business units Shell operates through around the world needs further testing. Shell maintains a quite formal process of checking the compliance of country operations on issues such as Health, Safety and the Environment and business integrity requiring signed statements by country chairmen, CEOs or CFOs to demonstrated commitment to policies associated with sustainability. It is unclear whether this process, whilst verifiable because it creates a paper trail, contributes significantly to deeper learning but at least business unit leaders are left in no doubt as to the importance the group places on compliance. We would need more data before assigning Shell to either the 'emerging' or 'established' category in the strategy implementation framework.

Operational orientation towards customers, investors, business partners and other key stakeholders

We described above Shell's commitment to maximizing shareholder value over the long term. It may be assumed that this policy is well understood at operational level. It is less clear from public sources the degree to which Shell business areas and business units around the world have operationalized stakeholder responsiveness. Shell's public reputation around the world continues to improve (Boele *et al.*, 2001a), so clearly something is happening which is positive. According the Shell Report (Shell International, 2000) between 73 and 94% of operating companies across the five core businesses had procedures for identifying and engaging with stakeholders but only 35–50% were measuring the effectiveness of engagement. Between 26 and 44% had procedures to use the results of stakeholder engagement processes.

There is good evidence of good practice in stakeholder engagement and community development in certain areas, e.g. Peru, the Philippines, Canada and Northern Europe (Jones, 1998; Shell International, 1998, 1999, 2000, 2001a; May *et al.*, 1999). Over the period 1995–2000, Shell's 'social investments' averaged just over 1% of pre-tax profits (Shell International, 2001a).

Where Shell maintains a sizeable retail presence it is not surprising that active attention is paid to brand protection and customer sensitivities. In contrast there is direct and ongoing evidence of community-related problems in Nigeria – a country where retail activities are dwarfed by exploration and production priorities (Boele *et al.*, 2001a). Nevertheless of $139 million invested by Shell in society in 2000, 32% was devoted to communities in Africa and the Middle East, the majority of that spent in Nigeria (Shell Nigeria, 2001).

A comprehensive appraisal of stakeholder orientation at operational level is not currently available. This would require systematic gathering and publication of the results of the processes described above and more formal and in-depth surveys of direct customers, shareholders, suppliers, contractors,

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franchisees, NGOs and other key groups in a range of *business uni*ts – including Shell Nigeria[1] – in addition to the sort of more global opinion survey work and process checking which has occurred to date (Shell International, 1998, 1999, 2000, 2001a).

At a business unit level in Nigeria, there is some evidence that Shell has tried to reach out to local stakeholders, albeit clumsily and with a frequently negative response (Boele *et al.*, 2001a,b; Imomah, 2001; Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*). However, it would be somewhat surprising if Shell Nigeria attached as much importance to interests of these stakeholders as those of its principal investors, i.e. the Royal Dutch/Shell group and the Nigerian Government. Shell produces just under half of Nigeria's daily crude oil output of 2 million barrels (Shell Nigeria, 2001). Nigeria, in turn, produces a significant proportion of the group's basic resources of oil and gas. This equated to 10.5% of Shell's crude oil production in 2000 (Shell International, 2001d). This situation is not set to change. In his August 2001 presentation to financial analysts, Philip Watts described the development of LNG in Nigeria since 1999 in glowing terms, and included a significant deepwater oil find near the Bonga offshore field in Nigeria as one of the highlights of his summary of a 'vintage quarter' for discoveries (Watts, 2001). Even before the Bonga discovery, LNG production in Nigeria was predicted to rise to at least 5.8 million tonnes per annum with supply contracts already in place with a number of European customers (Shell International, 2001d).

Clearly the priorities and mind-set of exploration and production and the needs of investors must dominate Shell Nigeria's orientation towards stakeholders, and with such a high degree of Royal Dutch/Shell investor confidence so dependent on the Nigerian operation we must assume that any map of stakeholder influence drawn up by Shell Nigeria would have corporate investors, the group and the Nigerian Government preeminent and community and environmental interests somewhat secondary and instrumental to the former (Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*). However, it is clear that in its communications with all stakeholder groups, including investors, concepts of sustainability and sustainable development feature explicitly in the discourse between the company, its operational units and its various constituencies.

Operational orientation to employees

The Shell Report (Shell International, 2000) carried relatively little information from the 1999 Shell People Survey – the staff attitude survey which captured employee opinions in more than 100 countries. Thus it was not clear whether the survey instrument touched on questions that would have provided deep insight on Shell's operational orientation to employees from a sustainability perspective. One statistic provided was that 55% of aggregated employees agreed that they knew how they could contribute to Shell's core purpose of 'helping to build a better world'.

The following year, the Shell Report 2001 provided some details of the second Shell People Survey conducted in October 2000 (Shell International, 2001a). The survey included more than 90000 employees and was conducted in no fewer than 37 languages. It emerged in the second attitude survey that 80% of staff were proud to be part of Shell (+5% on the previous survey), but that 37% found it difficult to balance work and personal life. These statistics provide indirect evidence of a generally positive culture, but with some stress being felt because of the transition to a higher level of accountability for performance.

We know that cost leadership and portfolio management has translated into group cost savings of $4 billion (so far) and a reduction in total employee numbers of 20000. Chemicals alone has seen the number of businesses decline from 21 to 11 between 1998 and 2001 and employees from 21000 to 9000 (Shell

[1] The 862 respondents to the Tell Shell initiative in 1999/2000 (Shell International, 2000) did not represent an especially representative or numerically robust sample. But it is interesting to note that the two most frequently mentioned issues by respondents were renewables and Nigeria, again further reinforcing the salience of these issues to activists and those stakeholders willing to engage directly with Shell and indeed the importance of Shell doing more formalized stakeholder relationship assessments in Nigeria itself.

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International, 2001b). Simultaneously ROACE for the chemical business improved from 7.2% to 14.8%. A number of the comments from employees in recent Shell Reports have reflected the pain of this transition.

More data from the People Surveys would be needed to generate a fuller understanding of the role of employees in Shell's implementation of sustainability strategy. The fact that Shell intends to repeat the surveys on a regular basis may provide future opportunities to explore this. Analysis would need to be performed on a business unit and country by country basis to test the variability in response rates to key questions of attitudes to sustainability across cultures and business types.

Meanwhile, we may conclude that in terms of overall strategy implementation, employees are in some cases seen as a cost and in others their values and professional contribution are perceived to be central to the development of a new performance culture at Shell (Watts, 2001).

Operational orientation to the natural environment

Given that Shell has an underlying commitment to develop and exploit more hydrocarbon resources, Shell has ambitious targets on the environment, including the exceeding of Kyoto-based targets on global warming and operationalizing and certifying environmental and safety management systems (Shell International, 2001a). The likely future 'cost' of carbon is now formally included in capital expenditure planning at a group level and environmental liabilities are well understood and measured, standing at approximately $3 billion (Shell International, 2001d).

The group is committed to a significant reduction of gas flaring as a contribution toward reducing the group's global warming potential, aiming to phase out all flaring by 2008. As a result GWP, total carbon dioxide emissions and total VOCs and methane emissions are all projected to fall significantly (Shell International, 2000). There is a more mixed picture in terms of projected releases of nitrogen and sulphur oxides and oil discharged with effluents. However, total oil spills are projected to reduce from 4.2 thousand tonnes in 1999 to 2.9 thousand tonnes in 2003. By any comparison, at corporate level Shell has a competent record given the industry it is in and the environmental impacts of its production processes and indeed those of its products during use.

At the business unit level, the record is mixed. In Nigeria, Shell has been heavily criticized for its performance on the environment and accepts that standards need to rise (Boele *et al.*, 2001a,b).

SOME OBSERVATIONS ON SHELL, STRATEGIC MANAGEMENT, SUSTAINABILITY AND STAKEHOLDER RESPONSIVENESS

Johnson and Scholes (1999) describe strategy as 'the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholder expectations'.

From our analysis in it is clear that Shell's approach to strategic management is in flux but that today it is certainly attempting to better meet the needs of markets and the expectations of stakeholders than was the case formerly. From a sustainability perspective the group has refined its corporate mission and purpose to better reflect responsibilities to stakeholders, human rights and the natural environment, and it has invested significantly in processes of communication and learning, which should help Shell prepare for the complexities of less predictable energy supply and chemicals markets of the future.

As we saw in the first part of this paper the group has

- loosened up a little on its reliance on logic and control, although these remain the dominant organizational paradigms in the group,
- retained and perhaps made more explicit a responsive/portfolio approach to corporate strategy whilst shifting significantly from a

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resource-based (inside-out) to a market-based (outside-in) strategic orientation for its business areas;
- enhanced its incremental, iterative approach to strategy formulation whilst accelerating its evolutionary approach to corporate change, achieving quite significant alterations in performance expectations and incentives and
- encouraged global diversity in approach with the result that tolerance of ambiguity in values and stakeholder orientation may have increased rather than decreased.

In the second part of the paper we explored Shell's approach to strategy formulation (analysis and choice) in the context of sustainability and stakeholder responsiveness and concluded that Shell is relatively well placed in all four dimensions: current, future, internal and external. However, like most oil and gas companies, the bulk of Shell's strategic momentum remains in their hydrocarbon business – especially at a time when the chemicals business is experiencing competitive pressures and the renewable and alternative energy businesses are not yet viable in their own right. We also noted the enduring reputational handicap Shell faces compared with bp in the area of community development and how this might compromise sustainable shareholder value.

In our analysis of strategy implementation in the third part of the paper we noted that Shell scored generally well on corporate parameters but that data were lacking on a number of criteria for business units, including Shell Nigeria. We noted that for business units such as Nigeria that are dominated by an exploration and production imperative, local stakeholders were unlikely to be accorded quite the same importance as corporate investors. Nevertheless we observed that in many respects, applying the framework depicted in Table 2, Shell's corporate stage of development was at least 'emerging' and in some cases potentially 'established'. We believe the corporate mission and purpose is now 'institutionalized' with respect to sustainability. More data would be required on the operations of the group in order to assess the operational orientation of Shell to sustainability. It is entirely possible that the business areas and business units vary quite widely between the 'emerging' and the 'institutionalized' in terms of how they are implementing an integrated business and sustainability strategy.

The notion that corporations should strive to balance economic prosperity with commitments to social justice and the maintenance of environmental quality now and into the future is a compelling one (Elkington, 1998), but there are few, if any companies which would claim to have a clear idea of what sustainability will look like for them in the long term, and as a result there are relatively few companies which have devoted significant management time in developing formal missions, policies, frameworks, strategies and objectives that embrace concepts as complex and ambiguous as sustainable development. In this respect Shell has adopted a leadership role and should receive full credit for that. We see no reason to question the intent or the integrity of this process.

Nevertheless, based on the analysis described in this paper we would assert that Shell's overall strategy remains essentially that of a commercial, investor-driven entity seeking to maximize efficiency and profitability in its core business and in a portfolio of ancillary areas over the long term. The strategy appears significantly smarter and more focused on the external environment than it did five years ago, but particularly in exploration and production, business objectives are still framed in somewhat traditional terms. As we saw in the second paper of the trilogy (Boele *et al*., 2001b) stakeholder responsiveness – especially in Nigeria – is still addressed primarily from a managerialist and instrumental perspective rather than one which seeks to fundamentally re-orientate the purpose of the company.

The Royal Dutch/Shell group has become more market focused and more 'logically incremental' in terms of its strategy formulation, but paradoxically this allows more diversity and flexibility in the interpretation and implementation of strategy and indeed corporate values in the business units internationally. This does not necessarily auger well for consistency of application of principles of sustainability in those same business units.

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CONCLUSIONS AND IMPLICATIONS FOR OGONI

This trilogy of papers has attempted to take the microcosm of experience of Shell and the Ogoni in Nigeria and to use that as a lens through which to view Shell's evolving management style and strategic approach. There can be few cases which have been the subject of such intense external debate and internal reflection with respect to sustainable development as the case of Shell, Nigeria and the Ogoni, but we hope that throughout the trilogy we have been able to generate a level of insight into Shell's managerial and strategic orientation which has not hitherto been available.

What have we learned through this analysis which may be of use to the protagonists and to others faced by similar conflicts in the future?

First, there is little doubt that today Shell would probably not repeat some of the mistakes it made in Nigeria in the early 1990s (Watts, 2000). However as we described in the second paper of the trilogy (Boele *et al.*, 2001b), the dangers for Shell operating joint ventures with unreliable and potentially corrupt partners are ever present, and particularly where there is a history that is difficult to erase, it may be many years before new forms of organization and partnership may emerge to supersede these dangerous liaisons. This is most evidently the case today in the Niger Delta and more specifically in Ogoni. Shell has an enormous organizational barrier to cross if it is to establish a position of sufficient trust with the local community that will allow novel possibilities to emerge (Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*).

And yet this does remain the test case. If Shell cannot learn or innovate its way around the Ogoni issue then its corporate commitments to sustainability, human rights and environmental responsibility will always be subject to query. It is not an issue that is ever going to become invisible given the amount of enduring interest it provokes in academic and activist circles. Paradoxically if Shell can demonstrate that it has developed the capabilities of stakeholder inclusion and conflict resolution in Ogoni then it can probably do it anywhere – a skill which will be a source of immense reputational benefit and even competitive advantage to the group in the future.

Second, we have no doubt that with a vision of what is possible and with a willingness on the part of Shell and others to enter into an unpredictable and uncertain future, reconciliation with the Ogoni is possible. Given managerial and strategic developments in Shell since 1995 there is no corporate policy that would prevent a just settlement with the Ogoni and thereby create the conditions for developing a new and more equitable future, and there certainly remains a need on the part of the Ogoni for such a settlement. It all comes down to the ability of Shell in Nigeria to innovate and take risks at the local level that have not been possible to date and the willingness of the Ogoni to suspend judgement while this happens. There may be a role for mediation and third-party intervention by local government representatives, local NGOs, international agencies and others, but the main challenge lies with Shell Nigeria, i.e. the Shell Petroleum Development Corporation, to exhibit the vision and the local capabilities that Shell business principles should, in theory, require of all of its operational units around the world.

The barriers to progress in Nigeria remain the investor-driven, exploration and production imperative, and paradoxically Shell's new corporate approach to strategy making, which implies greater diversity of managerial approaches and (potentially) greater tolerance of ambiguity in interpretation and application of corporate values and principles. Despite the reputational risk of worsening conflict in Ogoni in 2001 (Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*), there seemed no prospect of Shell International issuing an edict for more conciliatory behaviours and corporate communications from Shell Nigeria.

We may never discover precisely what drove the transformation of Shell's business principles and subsequent strategic management style. There is no doubt that old

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paradigm assumptions about shareholder value and commercial imperatives (usually tempered by conventional 'license to operate' thinking) have given way to a more sophisticated style at the corporate level. It is tempting to speculate that the events of 1995 and the ensuing reputational damage were sufficiently shocking to the Shell system that they created the essential conditions for radical change but the reality was probably more prosaic. A range of general business factors within the oil and gas industry, reinforced by poor financial results for Shell in the mid–late 1990s and a deteriorating competitive position relative to its main rival BP Amoco (now bp) must have been front of mind for many senior players within Shell keen to see the company re-invent itself. Regardless of the reputational shocks Shell received in 1995 it was doubtless reasonably obvious both internally and externally that by the middle years of the decade that Shell was beginning to lose the plot in business terms.

As of August 2001, with continuing poor relations between Shell Nigeria and the Ogoni and ongoing use of divisive rhetoric by Shell Nigeria on its web site and via press statements (Shell Nigeria, 2001; Wheeler *et al.*, manuscript submitted to the *Journal of Business Ethics*), it was not clear how or when a breakthrough might occur between the protagonists. There is no doubt that within the group there are the skills and managerial capabilities to develop effective processes of stakeholder outreach, transparency and engagement in Nigeria. For example, audits and reports on relationships with stakeholders could be performed and reported relatively quickly using group capabilities. Management in Nigeria could employ more conciliatory language in its approach to the Ogoni question and even take some bold measures in its approach to human rights and community development in order to help overcome the current level of antipathy toward the company in Ogoni. We argued in the second paper in the trilogy that Shell might need to significantly supersede their instrumental and managerial approach to overcome the barriers which now exist between them and the Ogoni (Boele *et al.*, 2001b). A conciliatory contribution by Shell Nigeria managing director Ron van den Berg to the The Human Rights Violations Investigation Commission ('Oputa Panel') in Port Harcourt in July 2001 demonstrates what might be possible (van den Berg, 2001).

In our view, the new strategic orientation of Shell described in this paper does create most of the conditions for Shell Nigeria to take bold steps and leverage group capabilities to achieve reconciliation with the Ogoni, but paradoxically, as we have seen, Shell's new strategic approach does not mandate business units to perform in a particular way – regardless of the potential risk to corporate reputation. Thus the question remains whether Shell Nigeria has the internal capability *and the will* to play a full part in Shell's corporate journey towards a more sustainable approach to development, and, if so, whether the Ogoni will permit them to do it.

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