

# CHAPTER I

## INTRODUCTION

### A. Background of Problem

Royal Dutch Shell is one of the influential company in the expertise of petroleum oil and energy in the world (Poole, 2018). Historically, Shells is Dutch multinational oil and Gas Company located in the Netherlands. The company started by the merger of Royal Dutch Petroleum and UK-based Shells Transport & Trading, This company established in 1907 (Shell Global). Within the movement in the area, the company focuses in the oil and natural gas exploration, development, production, refining, and marketing as well as in the manufacturing and marketing of chemicals (Royal Dutch Shell, 2017). From, the specific focus makes this company becomes one of the companies that have a big part in the country.

The existence of Shells on a country occurs because of the investment attraction exists in the country. For examples such as loaded natural resources in the field of oil and gas make Shells company interested in investing in a particular country which is also commonly called as FDI which is Foreign Direct Investment especially in developing countries. The meaning of FDI itself is the investment that been made by a company in one country to do business in another country. FDI is the one that provides a favorable impact on a country where the company is located (Cohen, 2007). FDI done carried out by a company who wants to do cooperation in various fields with the provision of capital to a country with specific regulations. Here, foreign companies become one

of the most important actors to establish an investment relationship.

Furthermore, in the area about a natural resource like oil in this world, many countries had oil field and made them become the vital figure role in the petroleum industry and oil producing. Some of the areas are Middle East, Africa, America and others (Finances Online). In Africa itself especially had top five countries in the oil producing sector in the continent such as Nigeria, Algeria, Angola, Egypt and Libya (Carpenter, 2015) resulting economic growth also gain development for Africa.



Picture 1. 1 Map of Nigeria (geology.com, 2017)

Within the existence of oil In the West African, there is a country that renown with its abundant resources of oil and natural gas, Nigeria. Nigeria is located within the West Africa region surrounded by Niger to the North, Cameroon to the East, Benin to the West, and Chad to the Northeast.

The amount of oil and gas that produce by Nigeria is considered huge particularly in the Niger Delta region (Omofonmwan & Odia, 2009). In the past before the

discovery of the oil in the '50s in Nigeria the development of Nigeria is quite underdeveloped. Within the significant amount of poor people in the country, Nigeria placed in number 3 after China and India. Furthermore, the condition causes low development, social problem and the environmental degradation that paint the current state on Nigeria at that time (Romanova, 2007).

Nowadays Nigeria success in oil for raising their economic value with the help of foreign oil companies which are known as Transnational Oil Corporations (TNC). Transnational Oil Corporations (TNC) is a big oil company which operates in several countries. The oil companies provide increase state income and state deliver easy access to oil resources through the grant of oil permit and particular outline which classifies the rule and finance of the company. The reason is Transnational Corporations oil and gases have the role to have a contribution in the act of corporate activity that is happening in the country and committos society (Tuodolo, 2009). The oil industry has roles to used their expertise and resources to help Nigeria locate, drill, store, and export crude oil ( Salih, 2017)

Royal Dutch Shell is one of the corporations that do this activity. Shells are one of the TNC which is Transnational Corporation exist in Nigeria and has been around since 1937. Royal Dutch Shell has a general business principle which states that there are five specific areas for responsibility including to shareholders, customers, employees, business partners and the society (Shell, 2014). Which furthermore makes this company, definitely highly prioritizes corporate social responsibility in general. Royal Dutch Shells are also implementing CSR as one of the ways to help development.

In Nigeria itself, the corporation like Royal Dutch Shell and other appear eventually will cause good thing

and bad thing. Which usually seen in any kinds of problems that come to the unbalance between the people in society and also the corporation around the area. So, one of the methods to avoid the problem is by the program of Corporate Social Responsibility (CSR), and also CSR in this connotation can be described as an option of the company to take action in consideration of the country development by combining the goals of a company with the well-being of society.

The sad thing happens mostly in the environment area which is caused by the result of activity in the company. In this case, for example, there was oil spill happened in Nigeria because the pipe owned by Shell broke made the environmental damage in most of the sea and the river polluted (Morgan, 2017). Then, everything around was disrupted by the water becomes dirty. Later on, the ecosystem becomes unfit so the creature inside like fish was dead also becomes poisonous and indirectly the surrounding community can be harmful. Shell has been harshly criticized for the environmental impact of the extractive industry in general and impacts on human. The reputations of oil transnationals such as Shell Nigeria (Haigh & Jones, 2006), and promoted the perception that such companies are merely profit-oriented and care less about the impacts of their operations. Effects can have dire consequences for the entire business beyond its local operational environment. In order to sustain their business and even achieve growth and expansion, it is imperative for companies to enhance their relations with society ensuring that they are strong and mutually beneficial.

Beyond the profit objective transnational corporations are increasingly demanded of to engage with host countries and communities and CSR has become one of the strategies towards this endeavor. In response to this demand and in the attempt to shore up its reputation and to build goodwill with local communities, Shell has

developed policies and programs aimed at taking on social responsibilities (Wheeler, Fabig, & Boele, 2002).

The good thing in an instance like the growth of the Human Development Index (HDI) in the country better than before which implies there has been progressing in the Nigeria country. Hence, one of the reasons why HDI is increasing in a country is that of the existence of TNCs to enhance the human development of the country through their CSR programs. Especially in oil TNCs in Nigeria have been gradually helping local communities in development aspects (Lompo & Trani, 2013). For example in Shell, there are CSR in social education program via scholarships and contribute to the local economic growth by providing local employment.

Shell's success as a company that makes CSR part of its main program was recognized when it gets an award that proves that the CSR program undertaken by the company has provided positive results as evidenced by recognitions under on the SERAs. The SERA–CSR Awards is an annual event to celebrate organizations investing resources in the improvement of lives of stakeholders and contributing to the development of Africa through their social performance and investment programmes. Eversince platforms were instituted in 2006. A total of twenty-six awards were won by corporate organisations and individuals in recognition of their sustainable development and social investment efforts in Nigeria. Shell Companies in Nigeria (SCiN) have emerged the 2017 Best Nigerian companies in Sustainability Innovation in Africa and Shell companies won as the Best Company in Affordable and Clean Energy, and got the second runner-up prize for the Most Socially Responsible Nigerian Company for the year. Then other awards such as Best Company in Poverty Eradication, Best Company in Provision of Clean Water and Sanitation Best Company in Partnership for

Development, and Best Company in Support of SMEs (Shell, 2017).

Furthermore, Shell Companies in Nigeria have been recognised for their work in local content, including the Local Content Operator of the Year Award by the Petroleum Technology Association of Nigeria (PETAN) in 2013 and 2015. In 2016, PETAN honoured SPDC with the Distinguished Achievement Award (Corporate) in recognition of the company's pioneering role in Nigerian content development. PETAN also conferred a Professional Award to Bayo Ojulari, Managing Director of SNEPCo, for his notable contributions to the development of Nigerian content in the oil and gas sector. In 2017, PETAN bestowed Shell Companies in Nigeria with the Aret Adams Award for Excellence in recognition of their amazing contributions to the development of local content in the Nigerian oil and gas sector (Okafor, 2017).

## **B. Research Question**

In reference based on the background of the problem explained above. The author would like to propose a research question regarding the CSR topic about *“How is the CSR Royal Dutch Shell role in Nigerian Community Development in 2015-2017?”*

## **C. Theoretical Framework**

### **1. Concepts of Transnational Corporation**

The meaning of a concept is one of the most important symbols in communicating the language that represents an object or another phenomenon and points out the relevant characteristics of specific studies (Mas'ood, 1990).

United Nations Conference on Trade and Development (UNCTAD) stated "*Transnational corporations are incorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is as an enterprise that controls assets of other entities in countries other than its home country.*" (UNCTAD, 2005). From the definition of TNC above it means that Transnational corporation is a company that is controlled by one main company as its headquarter that located in one country and has several subsidiaries company in other countries where transnational companies operate. Hence, the definition Transnational Corporation can portray corporation had many branch companies around the world.

The Transnational Corporation emerge as more extensively version of Multinational Corporation done which potentially give benefit for the national interest of the country in response for the activities of operation in the host countries to give contribution for the state. Then, used as tools to develop a country (Hennart, 2015).

### **2. Concepts of Corporate Social Responsibility**

The part of the Corporate Social Responsibility (CSR) contribute to the development of the country like Nigeria is real by trying to assist the people in the society to get a

better chance in life as part of their obligation to all part of host country population. The role of the corporation supports in the development of a country, not the other way around. Then, it gives the best in contributing to the advancement of the environment as their responsibility to the host country.

For a long time until the modern era today, the definition of Corporate Social Responsibility already been established in the world. Generally, CSR was known as the corporation acts of responsibility contribute to increasing the welfare in the community of the country (Brusseau, 2018). Besides that, World Business Council for Sustainable Development (WBCSD) also define the CSR as

*“way the corporation duty to the Business commitment to participate to advancement of the economy within the collaboration with worker, the local community and society in the bigger scale to enhance the life value”* (World Business Council of Sustainable Development, 1998).

This concept explains that the corporation is committing in the economic development then also increases the worker welfare and this definition also revealed that not all of the CSR could reach the goals that relate to their corporate responsibility. Therefore, the overall idea from the definition can become tools to understanding what the meaning of the CSR itself.

According to the Howard R. Bowen, in the book of “Social Responsibilities of The Businessman *“The term social responsibilities of businessmen refers to the obligations of businessmen to pursue to follow those lines of action which are desirable regarding the objectives and values of our society. This definition implies that businessmen as members of society. It is assumed,*



*however, that as servants of society, they must not disregard socially accepted values or place their values above those of society." (Bowen, 2013),*

In sum, CSR is the corporation roles that already become one with the society, which leads to the unethical reasoning if the corporation chooses to ignore the social need and focus on their interest only. Howard R. Bowen views the corporation as an actor to help the social problem in the country which is helpful in running their corporation and create one of their agenda consideration as the act to social responsibility to the society.

CSR is the corporation commission in the society to make the development in specific fields, especially in the field of social. Many things can be the company itself in realizing, it categorized as one of the agenda that must meet when they are in a country in need. Thus, The Corporation can be said to succeed if there is a change that occurs that contribute very well to society.

### **3. Concepts of Sustainable Development**

The perspective of the Brundtland Report view is the concept of Sustainable development "*Sustainable development that meets the needs of the present (people) without compromising the ability of future generations to meet their own needs.*" (World Commission on Environment and Development WECD, 1987)

From the concept, it has meant that quality of life must be better than the use of natural resources so that it can match the condition for future generation. This concept also emphasizes that the goal is to provide progress in the country economy by balancing the environment.

The components were divided into three elements namely social, economic and environmental.

a) Social components:

In this component, it aims to improve the equality of the community by improving the condition of a human being to ensure self-welfare which then one way of development can occur which happen through education and health.

b) Economic components:

The economy is one of the significant components of the country's independence. With the growth in the economy, there will be a development in the country as one of the effects. One way is by the opportunity of employment opportunities in local communities.

c) Environmental components:

This environmental component is one of the crucial things in the country because it can be an ingredient to keep going forward because the environment is one of the driving factors for growth so that it can continue to be used for the benefit of a country so that an environment will automatically affect a country's development. Usually by eliminating waste and reducing waste.

As correlate to Nigeria development trough Royal Dutch Shell as the concept Transnational Corporation involve in give the contribution to host country Nigeria in the form of CSR program, in this thesis the concept of corporate social responsibility is suitable to describe the condition of Oil Corporation and the CSR program in Nigeria. Also, the concept is applied to examine the effect

of the CSR program of the company as one of the obligations to run their business for a country.

In Nigeria, it lacks many things in making all part of the country to give a contribution. It is the lack of education, skill and knowledge made the people in Nigeria have no idea to be more than the expectation which leads to the low living standard as their everyday practice. According to the concept of Sustainable development, Shell company made the CSR program in Nigeria. The programs that implemented are in particular the economic, social and environment that will support the country's progress in community development and it can be used to find out the impact of CSR Shell in Nigeria in the more specific area.

From this component of sustainable development concept, it will focus on CSR programs and specific impact on the field, especially in the social field, which illustrates the impact on social development but the economy and environment are also supporting components of progress in society. Good changes to progress occur when supported by an overall of the three components above. In the matter of fact with the three components, it will be easier for the author to know the impact of community development carried out by the CSR program by Shell company.

## **E. Hypothesis**

Based on the above-mentioned theoretical framework, the author comes up with the hypothesis that Shell's role in Nigeria as Transnational Corporation that has a good impact in helping the community development by improving :

1. The social area through health facilitation and education by providing the scholarship.
2. The local economic growth through the local employment for Nigerian people.
3. The environment area through the program of oil spill prevention and Freshwater withdrawn.

## **F. Scope of Research**

The scope of this research is essential for the author to restrict the analysis to avoid disintegration and implications for the scope also to assist the data retrieval. (Jatmika, 2016) In this study, the author will focus on the period from the year 2015 until 2017. Based on The CSR for Royal Dutch Shell has annually Report each year.

In 2015 the CSR in Nigeria began to give impact on the progress of development seen in the annual report from Shell Sustainability Report by the escalation steadily until 2017 when reaching the end from last the report. Then, the concepts of Transnational Corporation, Corporate Social Responsibility, and Sustainable Development emphasize in the Program and impact. Even though Shells already exist for a long time in the past but in this research the limitation focus only three years period during 2015-2017 which show the newest data for easier analysis and understanding.

## **G. Purpose of Writing**

The purpose of this thesis is to start an assessment of the importance of roles CSR Company that impacting Nigeria development in 2015-2017. The Company Royal Dutch Shell in Nigeria gives responsibility to the country in the form of CSR. Even more, in the last few years, the role of CSR cause an excellent effect on Nigeria development in contributing to resolving the issues of social, economy and environment.

Then, another purpose working on this thesis is to fulfill as one of the requirement of obtaining a bachelor's degree in the Department of International Relations, Faculty of Social and Political Sciences in Muhammadiyah University of Yogyakarta.

The next essential purposes are to enrich the study that related to the subjects in International Relations such as the Study Africa and Multinational Corporation. Also, through this research the author tries to implement the knowledge that has been obtained from the lecture process by explaining, exploring and elaborating concepts with the facts that exist in the hope that in the future the efforts that have been made by the author can provide benefits in developing science, especially the development of International Relations.

## **H. Research Methods**

### **1. Research Type Methodology**

This study uses qualitative analysis methods, where the writer tries to describe and explain the role of Corporate Social Responsibility Royal Dutch Shell toward Nigeria

### **2. Source and Type of Data**

In this study, all the data collected for this analysis are the secondary data. These data sources are in the form of books, mass media, journals, documents, reports, and materials from the Internet.

### **3. Data Collection Techniques**

Data collection techniques used in this study is library research that is by collecting data and information from the literature that relate and have a resemblance to the issues discussed.

## **I. System of Writing**

This undergraduate thesis consists of five chapters and analysis in each chapter. All of the explanation will be elaborated systematically and chronologically into one thesis.

Chapter I explain about the introduction background of the problem, from the issues that explain before emerge research question as the first point to start research. Then, the theoretical framework based on the research. Hypothesis, writing purpose, the scope of research, methods of research and system of writing.

Chapter II In this section, the author explain all background of one Transnational Oil Company which is Royal Dutch Shell consists the history of beginning, company operation, and brand logo. Furthermore, after explaining the background continue with focus description of the history Royal Dutch Shell in Nigeria incorporating about Royal Dutch Shell enters in Nigeria, mission, strategy, and value of the company.

Chapter III In this section, the author, explains Royal Dutch Shell CSR in Nigeria which contains the description of CSR program as general, condition before CSR of Shell implemented, the reasons Shell chose Nigeria as one of the countries to do business. Then, a brief explanation of the CSR program in Nigeria following by the CSR area programs Royal Dutch Shell which has already implemented in Nigeria.

Chapter IV In this section, the author explains the impact of CSR Royal Dutch Shell in Nigeria according to the hypothesis written before about significant impact given by CSR programs Royal Dutch Shell to the community development including social, economy and environment sector in Nigeria 2015-2017.

Chapter V In this chapter contains the overall conclusions entire research that has been revealed in the chapters before on the Thesis about how CSR Royal Dutch Shell role toward Nigeria Community Development in 2015-2017 as the end of it.