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## Multinational Corporations Exploitation Endemics: Evidence from Royal Dutch/Shell Nigeria

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### **Abstract:**

*The paper examines the activities of Multinational Corporations MNCs exploitation endemics specifically in Nigerian oil sector by taking evidence from Shell Nigerian subsidiary. The activities that deal with the oil exploration and exploitation significantly have negative effect to the local communities. Current global economic crises due to the fall down of oil prices in the international market also shape the MNCs decisions toward regulating their exploitation over new emerging economies. MNCs should respect the Universal Declaration of Human Right (UDHR) for taking positive measures against human rights violation in their operational states or nations. MNCs have tasks regarding social, economic, and cultural rights of their host countries. Anything concerning the right to work, trade union freedoms, social security right, minorities' issues, is among the main concern of host communities. Paper discovered that the various national governments lost their sovereignty power due to their fairness over creating difficult laws that would regulate MNCs operations. Host nations jurisdictions in vulnerable areas are powerless when it comes to the control of multinational corporations. Recommendations have been made to the all stake holders that involve in the MNCs exploitation manipulations.*

**Keywords:** Multinational Corporations (MNCs), exploitation endemic, shell

### **1. Introduction**

The focus of this paper is exploitation endemic of Multinational corporations MNCs in emerging market. MNCs dominate major sectors of the Nigerian economy, including oil and gas, construction, manufacturing, telecommunication etc. Nigeria is one of the largest producers of crude oil in Africa, the eighth producer within the Organization of the Petroleum Exporting Countries (OPEC).

Developing countries and emerging economy now capture increasing proportions of worldwide inward and outward Foreign Direct Investment (FDI) and trade. Aggarwal, Berrill, Hutson, and Kearney, (2010) Opined that MNCs are increasingly pursue strategies to overcome the resource deficiencies and other limitations of doing business in developing countries, and firms from developing and emerging market bearing devise strategies to compete in their own and developed markets.

MNCs exploitation endemic has many elements encompassing employees' welfare, environmental issues, local community and labor issues. This paper focuses on the last of the above mentions categories specifically labor matters. Many multinational corporations (MNCs) are exploiters. The case of Shell in Nigeria as one of the top exploiting MNCs is well known issue globally. Shell in Nigeria exploits crude oil over years. Almost 80% of Nigerian oil are exploring by Shell since 1958. The issue of divide and rule and primitive accumulation of capital was fully utilized by Shell in Nigeria. Aggarwal, et al. (2010) Viewed Multinational Corporation (MNCs) as any traditionally thought of successful organization that have grown over many years into large corporations that are international in their operations, vision and strategies. However, the issue of unequal development was come here between developed countries and emerging economy. Nigeria as a giant of Africa loses control over its legitimate natural resources. For long period nobody knows exact barrel of oil exploring by Shell Nigeria.

Imasogie, and Osaretin (2009) Opined that the inability of MNCs to meet the basic needs of host communities is the major cause of conflicts in many countries. The MNCs also use capital intensive technologies developed in their nations, which create high wage employment for only a few employees but little employment for most others. Other cause of MNCs exploitation is due to the inability of the host government toward regulating and mitigating the activities of MNCs in their countries.

## 2. MNCs in Nigeria

During the colonial era MNCs came into Nigeria under the British government. British colony enacted the basis that allow the MNCs especially Britain companies to engage in the exploitation of Nigerian mineral resources. This policy aims to influence major decisions that were taken regarding MNCs operations in Nigeria. In early 1900s all mineral resources were under the control of colonial masters. During that period the most available mineral resources in Nigeria was Tin. The first MNCs came into Nigeria was Naraguta Tin Mining Company which was set up to exploit this resource. The company takes control of the area from masses whose were engaged in mining in Jos Plateau state. The head of the British administration in Nigeria during that time Lord Lugard, stated that: Minerals can only be discovered and exploited by the science and capital of Europeans, and to them the government can provide at once more security and more control than native chiefs and can allocate the royalties for the good of the country as a whole (Amao, 2008).

However, the oil exploration was started in 1906, and was limited to British companies. In 1937, an exploration license was issued to Shell-BP. The company enjoyed competitive advantage by discovering oil in over 15,000 square miles of Niger Delta area. In 1958 Shell discovered large quantity of oil in Oloibiri area of Rivers state. Consequently in 1959 a year before the independence other MNCs from western world were came for oil exploration; such companies include Agip, Mobil, Elf, Tenneco and Texaco (Amao, 2008). Also Petroleum Profits Tax Ordinance was established in 1959 which provides equal profit sharing between exploration companies and the Nigerian government.

## 3. Shell in Nigeria

Shell began exploration in Nigeria since 1937 during colonial rule. The company discovered its first commercial oil in 1956 in Niger Delta south-south region of Nigeria. In 1958 the first commercial cargo of oil left Nigeria. Commercial exploitation of 6000 barrels per day was started. In 1970 the oil sector industry was nationalized and joint venture with foreign oil companies was begun. The Nigerian government owns 55% while Shell Nigerian subsidiary owns 30% and Elf and Agip hold the rest (Boele, Fabig, & Wheel 2001).

Obinna and Abdullah (2012) stated that Shell show commitment to corporate social responsibility programs by been involved in poverty eradicating activities in the Niger Delta. The company states that its operations strategy contributes to the development of host communities; through efficient and ethical standards of its business activities, in such a way that is beneficial to the host countries and by given financial and technical support for local development initiatives. But this assumption is not fully utilized in Nigeria due to the several allegations against its operations by the local host communities and by the international non-governmental organizations (NGOs).

## 4. Why MNCs Invested Abroad?

A well-known economist John Dunning mentions four reasons behind MNCs investing abroad. These reasons are:

- Market seeking,
- Resource seeking,
- Strategic assets seeking and
- Efficiency seeking.

There are many factors motivated Shell entered in to Nigerian market, some of these factors are include:

### 4.1. Economic Factor

One of the main objectives of any business organization is to increase its turn- over, increase its market size, and growth. Nigerian oil sector future growth is very attractive to the market oriented firms. Nigeria as number one most populous country that has oil in the Africa can attract many foreign firms.

### 4.2. Access to Natural Resources

One of the motives of going abroad according to Dunning is seeking resources. Nigeria has abandoned natural resources such as crude oil. MNCs entered Nigerian market in order to get access to the cheap source of natural resources.

### 4.3. Cheap Labor Cost

Cheap labor cost is a magnet that might attract the attention of MNC's like Shell to enter foreign market. There are many skilled and unskilled cheap labors in Nigeria due to the higher population. For instance wages for technician in USA can pay ten times the same skills technicians in Nigeria.

### 4.4. Easy Access to Foreign Markets

Nigeria is a center of commerce in Africa, a place where by peoples from various angles doing their businesses, this is a good opportunity for MNCs to export their products to various areas in the continent.

### 4.5. Rules and Legal Reforms

Country rules and regulations can determine the inflow investments. Nigeria has favorable legal back up for the foreign investment inflow. Several amendments have been made over a period of time. This open room for the foreign investors to invested in Nigeria.

#### 4.6. Tax and Tariff Policies

Tax is one of the things shaping MNCs inflow growth in the country. The rule is, more tax less investors, while less tax more investors. In comparison with the developed countries, Nigeria tax policy is very attractive to the investors. Tariff barriers and income tax are very attractive in comparison with developed countries. This simply shows how firms like Shell can enjoy a luxury of paying low tax.

### 5. MNCs Benefits to the Host Countries

Many developing countries are seeking MNCs inflow in order to benefits the transfer of knowledge, skills, technology, and capital. The theory that backed up this idea is federalism system. Federalism played important role towards economic growth of many countries, such as England in the 18<sup>th</sup> century and the United States in the 19<sup>th</sup>& 20<sup>th</sup> centuries, and China in the last twenty six years to date.

Foreign direct investment contributes to the growth and development of the host country in diverse ways, these include; (a) contributing to the growth of the real output direct investment in the production of tangible goods, (b) generation and expansion of business through stimulation of employment, raising of wages and replacement of declining market sector, (c) support of overseas affiliates by the parent company through provision of appropriate human and material resources, (d) reduction of the host countries propensity to import and efficient allocation of production resources, among others (Bakare, 2010).

The primary aims of Nigerian government were to get access to the followings:

#### 5.1. Easy Access to Shell Technology

Over years Nigerian government realize that having blue print of foreign technology was not sufficient to enhance its oil sector. Nigerian government discovered that the only way out is to used contingency theory assumptions to redesign the sector through joint venture with world recognize first class exploration firms like Shell in order to acquire their technology. Nigeria has gain high technology experience from Shell.

#### 5.2. Research and Development

This is another motive of host government, having secondary technology is not enough in building local firms. One of the reasons behind marrying between Nigerian National Petroleum Corporation (NNPC) and Shell is to share developed technology research experience. Shell established research and development centers in Nigeria. This would give indigenous engineers a great opportunity to participate in conducting contemporary research.

#### 5.3. Improve the Capability of the Local Firms

One of the host country primary objectives was to provide an avenue where by indigenous companies would build their capacity. This can give indigenous firm ability to improve their performance to meet international standard. This policy can attract MNCs to do joint venture with local firms and could also protect foreign exploitation.

#### 5.4. Increase Investment Inflow

Inflow of foreign firms would enhance business and commercial activities of the host nations.

### 6. Shell Exploitation Endemic

Shell Nigerian subsidiary used various strategies toward exploring crude oil in Nigeria. Some of the strategies used in exploiting Nigerian oil are include the followings:

#### 6.1. Divide and Rule

The MNCs in the Niger Delta have strategically adopted a divide and rule technique in which they identify for compensation, people in the host communities they believe have the capacity to influence the indigenes to ensure that they have peaceful environment to operate in, at minimal cost (Ngozi, Olatunji, & Clara, 2012). Also Shell doesn't allowed labor union activities during military regions. Workers don't have any umbrella that lodges their complaints. Due to the barked up by the military government and absence of labor union and civil society involvement in the process of exploring oil in Nigeria Shell provides false information governing their activities.

#### 6.2. Corruptions

Corruption is a disease which is more harmful than EBOLA or HIV viruses. Shell gives bribery to the government officials, military officers, Police personnel, environmental protection agencies, and to the extent Shell was bribed human rights and environmental activists. Ngozi, et al. (2012) states that in some communities they encourage corruption practices by bribing traditional rulers and local community leaders.

Nevertheless, Shell victimized Niger Delta people, instead of oil exploration they choose to sponsor discord; to the extent they used the military against the people of the region. King Saro- Wiwa leader of the Movement for the Survival of Ogoni People (MOSOP) arrest, detention, trial and hanging is a typical example of MNCs activities in conjunction with the military government of that time (Abraham, 2011).

Many grievances were made by the Niger Delta communities to the national and international courts over a period of times such as devastating economic activities of the region, environmental molestation, clean water problem, lack of health facilities, high rate of unemployment etc.

These are among the Shell exploitation disaster to the local communities and to the Nigerian in general. Shell spoiled the fertility of Niger Delta land. The main businesses of these communities before the exploitation was farming and fishing. Due to the oil spillages they wouldn't plant anything in their land. Also fishers they wouldn't be able to get fishes because oil spoiled the rivers and seas in the region.

Shell as one of the oldest MNEs was pressurizing by the international civil society's organizations on Niger Delta endemic exploitation. Due to the international pressure on 7<sup>th</sup> January, 2015, Shell in London agreed to pay \$84,000,000 to the victims of this exploitation. The case was raised by Amnesty International.

### 7. MNCs Self-Regulating toward Reducing Exploitation

Many MNCs, due to the high pressure from civil society, have provided codes of conduct regulating their activities. Before 1990s MNCs had a veto power over most of the developing countries. But nowadays such monopoly luxuries are no longer available due to the free market policy (new world order). This threat imposes most of the MNCs to reduce their exploitation molestation especially in developing countries. Open market policy by the various governments, as a result of embracing democratic system by many developing countries, imposes MNCs to reduce their exploitation activities. In Nigeria presently because we are in democratic era, central government used aggressive monitoring policy on the activities of multinational corporations in the Niger Delta in particular and other regions of the country.

Adati (2012) revealed that the activities of MNCs especially oil exploration and exploitation firms' causes' alteration to the environment which significantly have negative effects to the host communities.

However, high perfect competition among the MNCs also contributed immensely toward reducing exploitation by MNCs. The main argument here is does MNCs ready to regulate exploitation? There is no direct answer for this question. In a situation where by MNCs got any slight opportunity their main concern is to maximize their profits through closing their eyes on local community as mentioned in the Shell dilemma in Nigeria. But in a place where by perfect competition exists and system of the central government is functioning MNCs can regulate their exploitation devastation and vice versa.

George (2005) explains that presently the oil and gas sector has been among the leading industries in championing Corporate Social Responsibility (CSR). Oil companies attach greater importance to their social and environmental impact and they engage more with local communities than they used to in the past.

Current global economic crises due to the fall down of oil prices in the international market also shape the MNCs decisions toward regulating their exploitation over new emerging economies. The crackdown of many stock exchange market in the world has positively contributed toward minimizing exploitation endemic of the MNCs. Self-regulation is designed to minimize national and international government regulations from occurring.

### 8. International Agencies that Regulate the Activities of Multinational Corporations (MNCs)

There are many international regulatory bodies regulating the activities of MNCs, but to my own understanding they are not enough or they are not well implemented. Amnesty International mentions two key areas of MNCs responsibility. To protect human rights within their scope, and to support human rights protection.

United Nations global compact shows recognition of the following bodies within the eye of international law. These are including the followings:

- International labor organization (ILO) : The ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy adopted by the governing body of the ILO in Geneva 1977, states that MNCs should respect the Universal Declaration of Human Right (UDHR) for taking positive measures against human rights violation in their operational states or nations.
- Organization for Economic Cooperation and Development (OECD): This is another body overseeing MNCs operations. The OECD guidelines for MNCs states that MNCs have tasks regarding social, economic, and cultural rights of their host countries. Anything concerning the right to work, trade union freedoms, social security right, minorities' issues, is among the main concern of this body. But all these laws are not well implemented.

Other international organizations regulating the activities of MNCs are involves:

General Agreement on Tariffs and Trade (GAAT) 1947, International Bank For Reconstruction and Development (IBRD)1944, The International Monetary Fund (IMF) 1945, Convention establishing the European Economic Community (EEC) 1957, United Nations Conference on Trade and Development (UNCTAD 1964), Global System of Trade Preferences (GSTP) 1988, and World Trade Organization (WTO) 1995.

### 9. National Governments Loses Power to Regulate MNCs

In most cases national governments are unable to enact the strong regulations that can regulate MNCs exploitation. MNCs have international entities which are above national government jurisdictions in terms of economic resources they have and decision making. MNCs have power over national planning on government issues such as economic policies and trade. At the same time national governments have different interests on market policy such as competitiveness market or social market practices. MNCs have a clear aim of profit maximization, while national governments have different interest.

However, national government lost their sovereignty power due to their fairness over creating difficult laws that would regulate MNCs operations. By enacting such laws MNCs will run away from such countries. In most cases MNCs have economic power than national government for that national government gives power to international regulatory bodies to regulate MNCs activities. The issue here is, subsidiaries are incorporated in different host countries, but they are answerable to the parents head office situated in the home country which is outside the host states jurisdictions. For

example in Nigeria under Companies Acts of 1968, foreign firms can be registered as Nigerian firms before they can allow operating in Nigeria. Also under Company and Allied Matters Acts 1990 section 54 it is their but it cannot be implemented due to the international regulatory bottlenecks on host countries.

Amao (2008) viewed that, there is a general perception that home jurisdictions in vulnerable areas are powerless when it comes to the control of multinational corporations. While this assertion is largely correct, he argues that there cannot be effective control of multinational corporations MNCs at international, regional or private level without the corresponding development of an effective minimum institutional framework at the domestic level. This shows clearly incapability of hostage countries in regulating MNCs operations.

All in all national governments especially in developing countries loses authority to tackle MNCs exploitation due to the inadequate cooperation among them. To regulate MNCs exploitation there are needs for public private partnership, and harmonization of efforts between the various governments and MNCs from different nations globally.

## 10. Conclusion

As one of the multinational corporations in Nigeria, Shell has demonstrated developmental responsibility by creating jobs and alleviating poverty in the Niger Delta region. This assumption is a myth revealed by many MNCs. This paper does not argue MNCs contribution to the various hostage communities, but the argument is, MNCs are given more priority to their demand rather than host communities' demand. The failure of MNCs to protect hostage communities necessitated the agitations for various governments to step in to cover this gap.

Corruption has been one of the bottlenecks, turning revenues generated in the hostage countries into benefits of MNCs. Therefore, expected developmental achievement from MNCs in the hosting communities is very low due to the various problems mentions earlier.

## 11. Recommendations

Recommendations have been made to the various stake holders regarding MNCs exploitation endemic.

- MNCs does not have the capability to address the developmental challenges of the hostage communities, and cannot played the role of government in enhancing standard of living of the various nations, therefore all stake holders should address the issue collectively.
- It is also recommended host governments to liaise with various international agencies that are responsible for regulating the activities of MNCs such as World Trade Organization (WTO) to provide regulations that would be beneficial to each party.
- The multinational firms should show commitments in providing basic developmental projects to the hostage communities.
- The MNCs should deliver their corporate social responsibilities to the local communities with integrity and honesty. This could be achieved by involving honest persons from the local communities in discharging their plans.
- The government should ensure that the MNCs comply with international standards in conducting their operations.
- Youth are the heartbeat of every nation; MNCs should employ qualified persons within the hostage communities in order to improved mutual relationship.
- Hostage governments should review the legislation license that guide MNCs operation from time to time and ensuring proper compliance.
- Non-governmental organizations (NGOs), hostage government, local communities as well as general public should monitored employees welfare by allowing them to engage in unionism activities to avoid divide and rule MNCs strategy.

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