

**Comparing the Transfer of  
CSR Principles by Western  
and Chinese Extractive  
Industry Firms to Promote  
African Development: A  
Co-evolutionary Approach.**

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*A ... firm-centred perspective will ... enable an approach to institutional change that is more dynamic” (Jackson and Deeg, 2008: 541-542).*

## **Abstract.**

In regarding corporate social responsibility (CSR), this thesis has moved beyond the stakeholder theory of the firm and adopted the evolutionary theory of the firm, together with recognising the link between corporate governance and CSR. This thesis has considered the historical development of the essential principles of corporate governance (embraced within the concept of CSR) of a Multinational Corporation (MNC), namely British Petroleum (BP), and assessed the transfer of these evolved principles for promoting development in Africa. To effectively apply evolutionary theory, one must also recognise that firms are part of a co-evolutionary process. Recent academic contributions by co-evolutionary theorists have paid attention to MNCs as change agents at the sector level. However, this thesis has taken this further and considered BP attempting to engage in institutional co-evolution where a MNC acts as a change agent to the wider institutional regime to promote development. Cantwell *et al* (2010) suggested that MNCs can have a significant influence upon the institutional regime, and presented a framework for firm-level adaptation by MNCs influencing the wider institutional environment in the host countries where they operate. They developed a co-evolutionary framework linking historical changes in the character of MNC activities to changes in the institutional environment, focusing upon the scope for firm-level creativity and institutional entrepreneurship leading to successful institutional co-evolution. Therefore, this thesis has followed on from this and investigated whether BP can be an agent for change in Africa, using the example of Angola to highlight the process.

A comparison was made with the new entrants into the market, China, to judge whether this influences BP’s ability to engage in institutional co-evolution. In addition, a comparative study of mining giant Anglo American was engaged in to highlight the appropriateness of BP’s CSR principles to the African setting. The thesis found that BP cannot successfully engage in institutional co-evolution because of an ineffective transparency initiative, whilst Chinese involvement has further diminished the ability to

transfer sound corporate governance and CSR principles, particularly because Chinese resource-seeking investment comes with ‘no conditions attached’ concerning governance in host countries. In addition, the competitive nature of securing licences to operate forces oil MNCs to use their CSR packages strategically, and furthermore, the social consequences of environmental degradation due to oil sector operations means that local communities cannot sustain their livelihoods, which is a lesson that has not been learnt from historical evolution.

**Keywords:** institutional co-evolution, corporate governance, corporate social responsibility, strategic choice, path dependence.

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## **List of abbreviations.**

|        |  |
|--------|--|
| AMAX   | American Metal Climax                                |
| ANC    | African National Congress                            |
| B/D    | Barrels per Day                                      |
| BP     | British Petroleum                                    |
| BRIC   | Brazil, Russia, India, and China                     |
| CABGOC | Cabinda Gulf Oil Company                             |
| CAGR   | Compound Annual Growth Rate                          |
| CCGLC  | Code of Corporate Governance for Listed Companies    |
| CEO    | Chief Executive Officer                              |
| CERES  | Coalition of Environmentally Responsible Economies   |
| CFA    | Chartered Financial Analysts                         |
| CFB    | Companhia de Caminho de Ferro de Benguela            |
| CFL    | Empresa de Caminhos de Ferro de Luanda               |
| CFM    | Companhia de Caminho de Ferro de Mocamedes           |
| CICMA  | Chinese Industry and Commerce Management Association |
| CMSNC  | China Merchants' Steamship Navigation Company        |
| CNN    | Cable News Network                                   |
| CNOOC  | China National Offshore Oil Corporation              |
| CNPC   | China National Petroleum Corporation                 |
| CORE   | Corporate Responsibility Coalition                   |
| CSI    | Corporate Social Investment                          |
| CSP    | Corporate Social Performance                         |
| CSR    | Corporate Social Responsibility                      |

|       |  |
|-------|--|
| CSRC  | China Securities Regulatory Commission             |
| DRC   | Democratic Republic of Congo                       |
| EITI  | Extractive Industries Transparency Initiative      |
| EMC   | Emerging Market Company                            |
| ERNP  | Environmental Requirements for New Projects        |
| FOCAC | Forum on China-Africa Cooperation                  |
| FDI   | Foreign Direct Investment                          |
| FESA  | Fundação Eduardo dos Santos                        |
| FLEC  | Front for the Liberation of the Enclave of Cabinda |
| FLNA  | National Liberation Front of Angola                |
| FTSE  | Financial Times Share Index                        |
| GB    | Great Britain                                      |
| GCE   | Group Chief Executive                              |
| GDP   | Gross Domestic Product                             |
| GRI   | Global Reporting Initiative                        |
| HSE   | Health and Safety Executive                        |
| IFC   | International Financial Corporation                |
| ILO   | International Labour Office                        |
| IMF   | International Monetary Fund                        |
| INEA  | Angola Roads National Institute                    |
| KMA   | Kailan Mining Administration                       |
| MEND  | Movement for the Emancipation of the Niger Delta   |
| MNC   | Multi-National Corporation                         |
| MNE   | Multi-National Enterprise                          |

|       |  |
|-------|--|
| MOF   | Ministry of Finance                                    |
| MOP   | Ministry of Petroleum                                  |
| MOU   | Memorandum of Understanding                            |
| MP    | Member of Parliament                                   |
| MPLA  | People’s Movement for the Liberation of Angola         |
| MVPE  | Monetary Valuation to Physical Effects                 |
| MWCC  | Marine Well Containment Company                        |
| NGO   | Non-Governmental Organisation                          |
| NNPC  | Nigerian National Petroleum Corporation                |
| NOC   | National Oil Company                                   |
| NSOE  | Non-State-Owned Enterprise                             |
| OECD  | Organisation for Economic Co-operation and Development |
| OLI   | Ownership, Location and Internalisation                |
| OPEC  | Organisation of Petroleum Exporting Countries          |
| PLC   | Public Limited Company                                 |
| PSA   | Production Sharing Agreements                          |
| R&D   | Research and Development                               |
| SAM   | Sustainability Assessment Model                        |
| SEAT  | Socio-Economic Assessment Toolbox                      |
| SEC   | Securities and Exchange Commission                     |
| SEEAC | Safety, Ethics and Environment Assurance Committee     |
| SHE   | Safety, Health, and Environment                        |
| SOE   | State-Owned Enterprise                                 |
| SPDC  | Shell Petroleum Development Company                    |

|        |   |
|--------|---|
| UAE    | United Arab Emirates                                |
| UK     | United Kingdom                                      |
| UN     | United Nations                                      |
| UNCTAD | United Nations Conference on Trade and Development  |
| UNDP   | United Nations Development Programme                |
| UNITA  | National Union for the Total Independence of Angola |
| US     | United States                                       |
| USA    | United States of America                            |
| USAID  | United States Agency for International Development  |
| WBCSD  | World Business Council on Sustainable Development   |
| WTO    | World Trade Organisation                            |
| WWF    | World Wildlife Fund                                 |

# Map of Angola.

(NOT TO SCALE).



Source: Adapted from Google maps (accessed 06/06/2011).

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# **Chapter 1: Introduction.**

## **1.1: The nature of the inquiry.**

The nature of the inquiry in this thesis is, essentially, to discover whether the emergence over time of the business principles of BP can provide insights into their corporate social responsibility (CSR) package that has evolved which is being implemented today in the oil sector in Angola and in African oil-producing countries in general. This is in order to answer the research question, which is whether the competition for Africa's natural resources between Chinese firms (as the new entrants into the market) and Western firms (focusing upon BP) has negative implications for the governance climate in the region. Assuming that good governance is necessary for economic development (Wilkin, 2011: 61), one must consider the objective and subjective nature of this question. The objective function defines the problem (Fonseca and Fleming, 1996: 585). In this context, it is the developmental needs of Africa. Economists tend to ascribe well-being to such objective measures (McBride, 2001: 253), and the subjective element is what these firms should be doing to promote good governance, and in turn, economic development which should enhance the well-being of the people of Africa.

Blowfield and Frynas (2005: 504, 506-507) feel that despite the wide interpretations and uses of CSR,<sup>1</sup> the current research agenda fails to tackle key questions because this agenda remains surprisingly narrow. For example, as they argue, in business schools much CSR research focuses upon limited issues related to the stakeholder theory of the firm,<sup>2</sup> and as a result, vital questions are not being asked. Blowfield and Frynas call for more profound questions related to the role of CSR in international development because we know very little about the impact of CSR initiatives in developing countries, and what we do know raises questions about the efficiency of CSR approaches. Therefore, relating to the nature of this inquiry, and to answer the research question, this thesis has attempted to assess:

1. whether a major international oil corporation (BP) has learnt how to embrace the CSR agenda from long-term experience of engaging in operations in developing countries,

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<sup>1</sup> See section 4.8.

<sup>2</sup> The inappropriateness of the stakeholder theory of the firm will be discussed in section 2.6.

2. what CSR principles are applicable to the African setting,
3. de jure convergence to the Anglo-Saxon model of corporate governance (China) versus actual adherence to a version of the Anglo-Saxon model of corporate governance (the UK),
4. whether major international oil corporations can positively influence the institutional environment in the host countries where they operate,
5. whether China's attempts to engage in resource-seeking foreign direct investment (FDI) is more likely to be successful in gaining licences to operate than the attempts of the West to engage in resource-seeking FDI,
6. how or if Chinese resource-seeking FDI is influencing the way that the West transfers CSR principles,
7. whether CSR is used merely as a strategic tool in order to receive licences to operate.

This introductory chapter will outline in which chapters these aims and objectives were considered, but to begin with, the context for this inquiry will be discussed.

## **1.2: A new 'scramble' for Africa.**

Africa is often perceived as the loser in the globalisation process.<sup>3</sup> However, the oil sector in the region is currently the exception to this perceived economic insignificance of Africa. Today, oil is one of the world's most vital strategic resources, and African oil reserves are increasingly being tapped by multi-national corporations (MNCs) because of growing global demand, suggesting that the continent is experiencing a 'new scramble' (Frynas and Paulo, 2007: 229-230). Indeed, Klare and Volman (2006: 297) highlight that this new scramble for Africa is due to the fact that the continent 'is the final frontier as far as the world's supplies of energy are concerned', meaning that this new scramble is 'becoming just as intense - if not even more so - than the former'. Nevertheless, terming this phenomenon as a new scramble does not accurately describe what is currently happening for two reasons.

Firstly, the original scramble for Africa was a very different process, in which, during the 1880s and 1890s, European colonial powers including Belgium, Britain,

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<sup>3</sup> For example, Strange (1998: 116) stressed that the important economic interests in Africa are not greatly affected by the process of globalisation.

France, and Germany turned African territories into colonies. This followed the formal partition of the continent at the Berlin Conference between 1884 and 1885, providing these powers with the legitimacy to govern these African colonies economically, militarily, and politically under their spheres of control. Therefore, access to oil was dictated by the colonial power that provided the capital, expertise, and technology to fuel the resulting oil boom.

Secondly, the first real scramble for Africa's oil began just prior to and after decolonisation. Algeria had been producing small amounts of oil from 1918, but began producing a significant output from their Edjeleh and Hassi Messaoud oil fields when they began operations in 1957. Also in 1957, the first tanker exporting oil from Gabon set sail, and in December, Nigeria embarked upon oil production. Between 1960 and 1970 the continent's oil output increased more than twenty times over, and later international events such as the Yom Kippur war<sup>4</sup> and the Iranian revolution,<sup>5</sup> both of which threatened global oil supplies, were to set the stage for Africa's increasing importance as an oil-producing region.

Certain characteristics of these original scrambles are absent from the new scramble. Considering the scramble by European powers to establish colonies, there were clear spheres of control which do not exist today, and foreign investment was relatively insignificant both prior to the Berlin Conference in 1884 and during the immediate period afterwards. Contrastingly, the current expansion in the region's oil sector is driven by foreign investment. Furthermore, Africans did not have a role to play in this original scramble because the process was dictated by European colonial powers. However, today African leaders do have a decision-making role. When considering the first scramble for Africa's oil prior to and after decolonisation, the first oil-driven scramble was of greater significance in comparison with the current one.

The first scramble for Africa's oil led to major political, economic, and social transformations in oil-producing states, especially Nigeria. Nigeria produced 20,000 barrels per day (b/d) in 1960. By 1973, this output had increased to over 2 million b/d. Currently Nigeria's oil production is only slightly higher than the levels achieved in the

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<sup>4</sup> The Yom Kippur war occurred in 1973 when Egypt and Syria made a surprise attack on Israel (Bronfeld, 2007: 465).

<sup>5</sup> The Iranian revolution occurred in 1979 when religion engineered profound political change (Akhavi, 1983: 195).

1970s. The contribution of the oil industry to Nigeria's total government revenue increased between 1970 and 1974 from 26.3% to 82.1%, and compared with the deep transformations that took place in this period, the impact of the current scramble in countries such as Nigeria and Angola will be relatively insignificant (Frynas and Paulo, 2007: 230, 232-235). Therefore, the fundamental question that this raises is why should the impact of today's oil driven scramble in countries such as Nigeria and Angola be considered relatively insignificant?

Lipumba (1994: 88) considered this question by asking whether African governments could establish developmental states that allocate resources and pursue policies that encourage investment in order to generate economic growth. This notion that good governance can spur economic growth is a framing assumption for a host of academic analyses (Kurtz and Schrank, 2007: 538), due to convincing evidence.<sup>6</sup> Therefore, good governance is essential for economically transforming Africa (Amoako, 2000: 155). Although real per capita income grew rapidly in the 1960s in much of Africa, it faltered through the 1970s to the early 1990s as the implications of the authoritarian rule which swept the continent in the 1960s and early 1970s took effect, namely political elites sacrificing the general interest to extract rents and retain power. However, the political landscape since 1990 has changed, with greater pluralism and democracy, and Africa has enjoyed a return to experiencing rapid growth after 1995 as these changes took effect. Nevertheless, where civil conflict has persisted, this has not always been the case (Ndulu and O'Connell, 1999: 41), and rent-seeking behaviour in oil-producing states may continue to hamper development, which is part of the phenomenon known as the resource curse.<sup>7</sup> Therefore, such previous studies have shaped the nature of this inquiry. If civil conflict and rent-seeking behaviour continue to have negative influences upon the governance climate in African oil-producing states, what can Western actors do to make a positive contribution to change this situation?

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<sup>6</sup> For example, Hope (2005: 284) noted that 'good governance, in all its facets, has been demonstrated to be positively correlated with the achievement of better growth rates, particularly through the building of institutions', and the African Development Bank emphasises that 'good governance is not only a worthy goal per se but also a prerequisite for sustainable development and poverty reduction in the longer term' (Kabbaj, 2003: 7).

<sup>7</sup> See sections 1.4 and 4.2-4.4.

### **1.3: Embed, cooperate, and act.**

The most immediate Western actors that can make a positive contribution to the governance climate in African oil-producing states are the oil MNCs that are engaged in operations there. Oil MNCs can adopt three strategies to contribute to peace, security, and economic development in the host countries where they operate, and these are embed, cooperate, and act. Adapted from Milton and Stoner (2008: 127), who suggested these strategies for moving towards environmental sustainability at the meso-level, firstly, oil MNCs should embed thinking into their corporate mentality. Whilst Milton and Stoner largely limited this to environmental sustainability thinking, this could be enlarged to embrace transparency and wider social issues into corporate decision-making. Secondly, there is cooperate, which in the context of this thesis means engaging with host country institutions. Finally, there is act, which involves going beyond pondering about whether such bold steps are possible, and actually engaging in activities that could contribute to peace and security.

By adopting this idea, this thesis has firstly and importantly, considered whether oil MNCs embed thinking into their corporate mentality, using BP as the example. Corporate culture is a phenomenon that emerges over time, and consequently, the historical evolution of corporate culture highlights the ability to embed thinking. Embedding thinking can be assessed by a MNC's ability to learn from past experiences, and an in-depth study of BP assessed this capacity to learn from experience. Secondly, BP's ability to cooperate and act, two concepts that are linked, was assessed. This was investigated by considering BP's ability to engage in institutional co-evolution.<sup>8</sup> This follows on from the work of Cantwell *et al* (2010), who believed that recent academic contributions have paid attention to change processes, with MNCs as agents of change, but more particularly at the meso-level. This thesis will take this further and consider the MNC as a change agent to the wider institutional regime. It can then be seen what sort of approach BP, and the Chinese, adopt in engaging with the wider institutional regime.

The first potential approach is that they could be firms that engage in institutional avoidance, where they take an external weak institutional environment as a

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<sup>8</sup> See section 2.4.

given. When engaging in resource-seeking FDI, where alternative investment locations may be limited, firms may be willing to accept a weak institutional environment rather than adopting an exit strategy. The second potential approach is that they could be firms that engage in institutional adaptation, where they adjust their policies to better fit the environment. This may involve engaging in corrupt practices or implementing behaviour that is relevant to the host country context. The final potential approach is that they may be firms that engage in institutional co-evolution. Although firms may exhibit behaviour that is relevant to the host country context, like in the previous scenario, the intention is not to adapt. Rather, the intention is to be a change agent for the wider institutional regime. A firm could achieve this by transferring organisational routines and principles. In addition, institutional co-evolution may involve the firms influencing international standards. In CSR, firms can be proactive in this by endorsing global standards, such as the United Nation's (UN) Global Compact (Cantwell *et al*, 2010: 572, 574-577), and indeed, BP has joined the Global Compact (Frynas, 2009: 28).

Therefore, this thesis makes a contribution to knowledge by assessing whether the attempts to transfer organisational principles by a MNC (BP) can be seen as institutional co-evolution. Cantwell *et al* proposed the framework for the firm as the agent for change, but following on from this idea this thesis has actually investigated the concept. Like other scholars who have engaged in a co-evolutionary approach, an analysis that is contextual, historical, and multidisciplinary was adopted. Furthermore, co-evolutionary insights have scarcely been previously applied to corporate governance and CSR,<sup>9</sup> despite the fact that business strategies for CSR can be seen as a co-evolutionary process. Of particular importance here, in terms of BP being successful in attempting to transfer their organisational principles to influence the wider institutional regime in the host countries where they operate, is the impact of the new entrants into the market, namely Chinese national oil companies (NOCs). New entrants into a marketplace always alter the 'rules of the game' and, according to Alden (2007: 8), nothing has captured the world's imagination as much as China's growing presence in Africa. However, an appropriate host country to represent the case study had to be found that grasped the phenomenon under investigation, the choice of which will now be considered.

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<sup>9</sup> See section 2.3.

## **1.4: Choosing Angola.**

To highlight the problem of attempting to establish a developmental state in African oil-producing countries, Angola was chosen as the case study. As Chapter 7 will outline, Angola suffers from rent-seeking behaviour<sup>10</sup> and a poor institutional environment, together with emerging from the influence of a long civil war. Angola was also chosen not only because BP has operations in the country, but in order to fully consider the influence of the new entrants into the market, China. In this context, Angola becomes a significant case because the country is now China's largest source of oil on the African continent. Although Western oil MNCs retain the largest stakes and the majority of the operational rights in Angolan oil fields (including BP, ChevronTexaco, ExxonMobil, and Total), Chinese NOCs have gained a significant foothold in Angola.<sup>11</sup> Therefore, China's presence in Angola presents a fascinating case study of new entrants into a market and China's growing reach globally.

Statistics highlight why Angola represents a fascinating case study. China was second behind only the USA in 2009 in terms of oil exports by destination. China received 29% of Angola's oil exports in that year (with the USA only receiving 2% more).<sup>12</sup> Angola is now ahead of Nigeria in terms of oil production<sup>13</sup> making the country the largest producer of oil in Africa, and the seventh largest oil producer amongst the Organisation of Petroleum Exporting Countries (OPEC) members, an organisation the country joined in 2007 (Energy Information Administration, 2010: 2). Therefore, relations with China as the new entrants into the market are of great importance to Angola, despite the continuing large presence of Western oil MNCs, including BP.

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<sup>10</sup> Rent-seeking behaviour is when each short-run opportunity for rent, or in this context the transfer of wealth, displaces the long-run opportunity for the creation of social value which will be equal to or greater than the long-run rent payoff. It will be greater in cases where the investment alternative cannot capture the full social gain (Corcoran, 2001: 22). Essentially therefore, rent-seeking behaviour is when resources are wasted, and in many cases of rent-seeking behaviour the activity results in negative social value. Under such circumstances, one not only has the waste of rent-seeking, but also the social consequences imposed by the rent-seeking (Tullock, 2001: 5, 11).

<sup>11</sup> See Box 1.1.

<sup>12</sup> See Figure 1.1.

<sup>13</sup> See Figure 1.2.

- **Shallow Water Block 3/80.**

Sinopec sought to gain production rights in this area in 2004. Sinopec's bid included a US\$2 billion credit line from China Ex-Im Bank, and subsequently, Sonangol decided in favour of Sinopec and did not extend the license of Total, who previously operated there.

- **Deepwater Block 14.**

Also in 2004, Sonangol and Sinopec established a joint venture, Sonangol Sinopec International Ltd, in which they cooperate on oil production and refinement. The activity of this joint venture also extends to Blocks 15, 17, and 18.

- **Deepwater Blocks 15, 17, and 18.**

Sinopec and CNOOC gained exploration and production rights in these blocks, in cooperation with Sonangol and Western oil MNCs.

- **Deepwater Block 18.**

Sinopec currently owns a 50% stake in this area, with the other 50% owned by BP. Sinopec purchased their stake for US\$2.46 billion in March 2010.

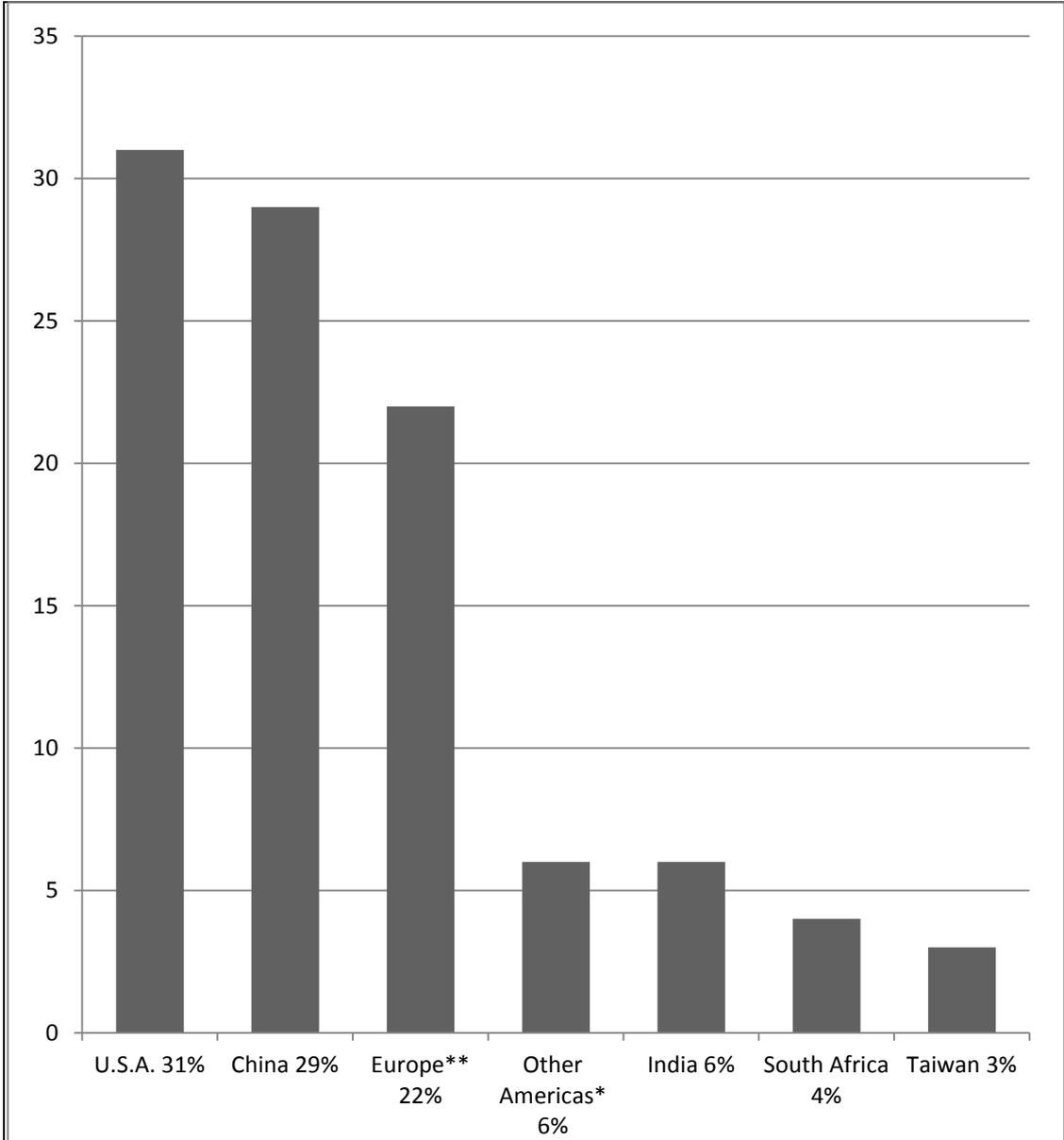
- **Ultra-Deepwater Block 32.**

CNOOC and Sinopec purchased a 20% stake in this area for US\$1.3 billion in 2009.

**Box 1.1: The Chinese Presence and Activity in Angolan Oil Blocks, as of the 25<sup>th</sup> May, 2011 (Zhao, 2011).**

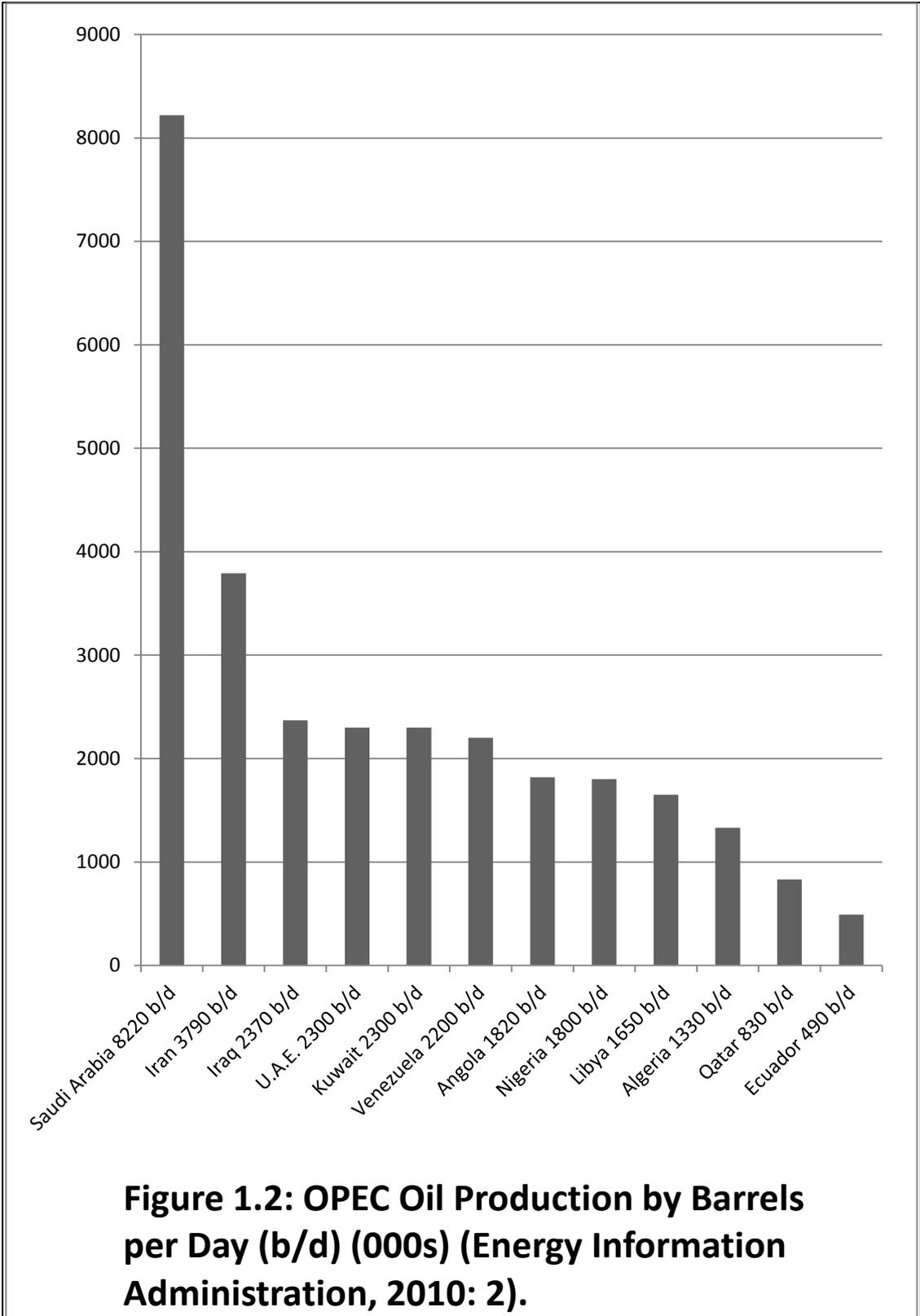
### **1.5: Structure of the thesis.**

To address the phenomenon under investigation, this thesis has been structured into four parts. Part 1 outlines the co-evolutionary theoretical framework (in Chapter 2) and the methodology adopted for this thesis (in Chapter 3), namely a case study approach which calls for qualitative interviews to procure an in-depth understanding of the phenomenon. Part 2 utilises the Western concept of CSR to firstly, link the resource curse with the CSR agenda (together with linking the two concepts of corporate governance and CSR); secondly, make the business case for an international oil firm's business principles; and



\*Other Americas:  
 Brazil, Canada, Chile, Peru, Uruguay.  
 \*\*Europe: Germany, Italy, Netherlands, Portugal, Spain, Sweden,  
 UK.

**Figure 1.1: Angola's Oil Exports by Destination, 2009 (Energy Information Administration, 2010: 3).**



thirdly, assess CSR in the Western extractive industry sector in Chapter 4. Chapter 5 then explores the history of BP's implementation of their business principles. The aim of this chapter is to begin assessing whether BP has learnt from experience and can contribute to peace and economic growth in a developing country by addressing the social and environmental consequences of their operations,<sup>14</sup> which is embraced within the concept of CSR. Whether BP has evolved a governance structure to embrace CSR issues will be explored, together with utilising their reporting mechanisms (and those of other selected Western oil MNCs, where appropriate) to assess the evolution of their CSR agenda. This chapter then makes a study of Anglo American's business principles. Although they are not an oil firm but a mining firm, this is to assess the applicability of BP's CSR principles to the African setting<sup>15</sup> since Anglo American is a firm with a long history of engaging in operations in the region.<sup>16</sup>

Chapter 6 considers the new entrants into the market, China, by looking at the wider corporate governance agenda. The general purpose of this chapter to establish how the Chinese will behave when they invest overseas. It will be considered whether China is likely to converge to or diverge from a similar corporate governance system as BP,<sup>17</sup> and whether the Chinese NOCs are likely to enter the market as a distinct entity which provides a new competitive dynamic that BP has to deal with, in terms of impacting BP's ability to be an agent for change. Important in this is the role of the Chinese state and their continuing ownership of the major oil firms. Chapter 6 also explores the history of Chinese corporate governance in order to discover whether these new entrants have learning capabilities which may impact their ability to engage in resource-seeking FDI. In particular, their ability in embracing Western practices will be assessed both historically, and today by utilising the reporting mechanisms of CNOOC and Sinopec (the two Chinese NOCs engaged in Angola). Both Chapter 5 and Chapter 6, especially together with Chapter 8 later, assesses whether China's attempts to engage

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<sup>14</sup> Aim 1 in Section 1.1.

<sup>15</sup> Aim 2 in Section 1.1.

<sup>16</sup> Anglo American's long history dates back to their founding in 1917, based in South Africa, to capitalise on a region that exploded on to the global mining scene. Anglo American believes that their strong South African heritage forms the roots for their global business (Anglo American, 2011a).

<sup>17</sup> Aim 3 in Section 1.1.

in resource-seeking FDI is more likely to be successful in gaining licences to operate than the attempts of the West to engage in resource-seeking FDI.

Having analysed the actors that are engaging in operations in Angola, namely BP and the new entrants (China), attention will then turn to analysing their operations in Part 3, to answer the research question of whether the competition between Chinese firms and Western firms (focusing upon BP as the example) has negative implications for the governance climate in the region. Chapter 7 will outline the governance climate in Angola to highlight what international oil firms could do to make a positive influence to the institutional environment in African oil-producing states; whilst Chapter 8 assesses the practical impact of BP's attempts to act as an agent for change,<sup>18</sup> together with the influence of other oil MNCs. In addition, this chapter discovers whether BP has learnt from their experience,<sup>19</sup> and assesses whether CSR is used as a strategic tool in order to receive licences to operate.<sup>20</sup> The influence of the new entrants into the market, China, will then be assessed in Chapter 9. This is in order to discover whether China has a contractual advantage over Western firms,<sup>21</sup> and how or if Chinese resource-seeking FDI is influencing the way that BP transfers CSR principles.<sup>22</sup>

In Part 4, Chapter 10 will summarise the general conclusions, assess the applicability of the co-evolutionary theoretical framework, acknowledge the limitations of the study, and make recommendations for future research. Therefore, this thesis will look at the actors first, in terms of making an historical analysis of their adaptive and learning capabilities and how they have evolved over time to influence how they enact their business principles today, before considering the influence of these evolved principles in addressing resource curse issues today in Africa.

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<sup>18</sup> Aim 4 in Section 1.1.

<sup>19</sup> Aim 1 in Section 1.1.

<sup>20</sup> Aim 7 in Section 1.1.

<sup>21</sup> Aim 5 in Section 1.1.

<sup>22</sup> Aim 6 in Section 1.1.

# Part 1.

## **Chapter 2: Theoretical framework for the study.**

### **2.1: Introduction.**

Hitt (2005: 371, 374) suggested that the most important theoretical perspectives for international business in the future would include evolutionary economics, resource dependence, and the behavioural theory of the firm; and within these perspectives, he highlights corporate governance as being particularly important. This chapter will discuss the adoption in this thesis of the co-evolutionary theory of the firm and highlights the fact that co-evolutionary insights have scarcely been applied to corporate governance and CSR, despite the fact that business strategies for CSR can be seen as a co-evolutionary process.

This chapter will outline the evolutionary theory of the firm before recognising that to effectively apply evolutionary theory to corporate governance and CSR, one must recognise that firms are part of a co-evolutionary process. Co-evolution in the context of whether firms can engage in institutional co-evolution will be considered. Of particular importance here is the work of Cantwell *et al* (2010). This thesis grapples with the issues of the firm acting as change agent to the wider institutional regime. The work of Cantwell *et al* has recently introduced an institutional element to international business research. Rather than relying upon quantitative research, this framework enables a fresh agenda to be followed-up by actively adopting their proposed framework, which is what this thesis has done. This chapter will then establish that the conventional shareholding and especially stakeholding paradigms are inappropriate for the purpose of this thesis.

### **2.2: The eclectic paradigm and the evolutionary theory of the firm.**

For almost three decades, the eclectic or Ownership, Location and Internalisation (OLI) paradigm has been a dominant analytical framework for testing the determinants of the overseas activities of MNCs. It states that the extent, location and composition of overseas activities engaged in by MNCs are determined by three interdependent variables. Firstly, there are the competitive advantages of the MNCs seeking to engage in outward FDI that are specific to their ownership (O) advantages. This relates to the fact that the greater the competitive advantages that a MNC has then the more likely they are to engage in outward FDI. Secondly, there are the locational (L) attractions of

host countries, which assert for example, that the more endowed that a country is with the resources that MNCs seek, then the more likely those firms will engage in operations there. Thirdly, there are the internalisation (I) advantages that state that if a MNC can benefit from internalising the costs of operations in a certain host country, then they are likely to engage in operations there directly rather than franchising activities to a foreign firm. I advantages that internalise the costs of operating in host countries acquire particular importance here. When one considers the specific O advantages that a firm might have, there can be static O advantages which are capabilities possessed at a given point in time, or dynamic O advantages which are capabilities that have developed over time. One of the key characteristics that have emerged in the last few decades is the increasing requirement for firms to possess dynamic O advantages when they have a desire to engage in outward FDI. This is because firms need to have an ability to sustain and/or to improve their advantages.

Subsequently, the evolutionary theory of the firm acquires significance here because it pays lip service to the process or path by which specific O advantages evolve over time. The evolutionary theory of the firm is a dynamic theory that focuses upon the long-term strategies and learning capabilities of firms. In particular, it is necessary for a firm to have dynamic O advantages that have evolved over time if it possesses a desire to engage in resource-seeking FDI. The more efficient a firm is in managing these advantages, then the more likely they will be granted licences to operate in host countries (Dunning, 2001: 83-84, 88-89, 92). Indeed, as Box 2.3 shows, one of the relational concepts in the behavioural theory of the firm is organisational learning, and firms exhibit adaptive behaviour over time. Although firms utilise individual actors as instruments to engage in adaptive behaviour, it is possible to deal with adaptation at the aggregate level of the firm (Cyert and March, 1963: 123).

Nelson and Winter (1982: 134) wrote that 'firms may be expected to behave in the future according to the routines they have employed in the past'. Fundamentally, routines are the basis of the characterisation of behavioural continuity in their evolutionary theory. Furthermore, evolutionary models allow for bounded rationality, where actors are not assumed to have accurate foresight. Actors have a set of routines that determine their actions and they generally stick to them regardless. However, other evolutionary models treat actors as operating within a set of routines in

the short-run. In the long-run, they have mechanisms that enable them to improve routines or to learn about better ones over time as they gain experience (Nelson and Winter, 2002: 30, 39-40). The ability to learn in this context concerns how actors within the firm make sense of complex and changing environments and how they react accordingly (Dosi and Winter, 2000: 27).

Critically therefore, if a firm wishes to engage in resource-seeking FDI, then it will benefit from possessing dynamic O advantages that have evolved over time through learning capabilities. A firm is more likely to receive and sustain licences to operate if they have long-term experience from which they have learnt. It is true that evolutionary theory in its earlier form focused mainly on the technological aspects of production. However, only by looking at the MNCs' evolutionary history can it be seen whether firm actors adhere to corporate governance and CSR routines in the short-run, or whether firm actors improve or replace routines in the long-run as the firm evolves and adapts to change. The learning processes of MNCs is what will drive their evolution of organisational routines (Cantwell *et al*, 2010: 573).

### **2.3: From evolution to co-evolution.**

To effectively apply evolutionary theory to corporate governance and CSR, one must recognise that the firms are part of a co-evolutionary process. The essence of co-evolution is the idea that what happens in each autonomous domain of a system shapes what is going to happen in the other ones. In this context, it is the interactions between the MNCs and socio/political institutions that matter. In other words, it is the relationship between MNCs and their institutional environment. The origins of corporate routines are intimately a co-evolutionary process, shaped by diverse and conflicting selection criteria, such as problem-solving versus corporate governance requirements. In essence, there is the problem of higher level changes, such as in the institutional set-ups or in the policy environment, impacting firm behaviour (Coriat and Dosi, 1995: 21, 23). Co-evolutionary research incorporates a number of approaches simultaneously:

- Longitudinal time series of microstate adaptation events.
- Organisation strategic adaptation in a historical context of the firm together with its environment.
- Causalities between micro and macro co-evolution.

- Mutual, simultaneous, lagged, and nested effects.
- Path dependence.
- Changes in the institutional systems where firms and industries are located.
- Economic, social, and political macro-variables which change and can influence over time (Lewin and Koza, 2001: vii).

Two of these approaches require explanation because of their utilisation in subsequent chapters, namely strategic adaptation and path dependence.

Strategic adaptation can analyse the character of the co-evolutionary dynamics of how firms adapt in a historical context. Strategic choice may be considered as a process: an adaptive learning cycle. Three key issues arise from strategic choice analysis, the nature of choice, the nature of the environment, and the nature of the relationship between agents and the environment. Firstly, the nature of choice involves ‘action determinism’. This refers to the possibility that actors select their actions because of built-in preferences. Action determinism therefore, draws attention to the predetermined mind-sets of actors, and the relevance this has for the interpretative process. Secondly, the nature of the environment invokes the notion of the ‘strategic alliance’, where a group of firms within the same sector at the meso-level make strategic decisions that influence upstream and downstream perceptions and objectives. However, as outlined in the Introduction,<sup>23</sup> Cantwell *et al* (2010) believed that recent academic contributions have paid attention only to MNCs as change agents at the meso-level. As this thesis follows on from this and considers one MNC as a change agent to the wider institutional regime, the notion of the ‘strategic alliance’ is inapplicable because this thesis is not concerned with an analysis of the strategic approach of a group of firms, but the approach of one firm. Thirdly, firms also interact within their environment. Organisations and environments both shape each other, and a relationship between agents and the environment can be achieved by ‘bridging’. By bridging, managers can attempt to manage the environment in which they operate by reciprocity, through negotiation, co-operation, and information exchange. The strategic choice perspective therefore, encourages a learning process, which invokes action via debate, negotiation, influence, and exercise of choice. It is an ongoing dynamic process:

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<sup>23</sup> See section 1.3.

information > evaluation > learning > choice > action > outcome > feedback

This process comprises two dynamic cycles. These are ‘inner structuration’, extending to the domain of organisational design, and ‘outer structuration’, extending to the environment (Child, 1997: 44, 48-50, 55, 59, 69-70).

Path dependency arguments were initially only utilised to explain why firms stick with outdated technologies, but more recently they were increasingly being used in the analysis of institutions, and they are now widely adopted in the social sciences to explain institutional stability and change (Kang, 2006: 2-3). Pierson (2000: 74-78) defines a path dependent process as one that is characterised by self-reinforcing sequences of events. Path dependence involves three phases. Firstly, there is the critical juncture where events trigger a move towards a particular path. Secondly, there is the period of reproduction where positive feedback mechanisms reinforce the movement along that path. It is not only single institutions that are subject to positive feedback effects. Complementary institutions are also influenced where the performance of one is affected by the existence of others. Thirdly, the path comes to an end when new events dislodge the established way of doing things. Therefore, every path begins and ends with a critical juncture, also known as punctuated equilibrium. Mahoney (2000: 507, 516-518) takes this point a stage further, by stressing that path dependence specifically characterises historical sequences where contingent events set into motion patterns or chains of events that have deterministic properties. Therefore, Mahoney specifies more clearly the early events in a historical sequence, and that these events must be contingent in that they cannot be explained by previous events. However, Mahoney believes that these mechanisms of reproduction have little relevance outside the market place and consequently, introduces other mechanisms, such as the application of power by actors to preserve a given institutional path.

The evolution of, for example, bureaucratic organisations has been receiving more and more attention over the last few decades. However, only a handful of studies have attempted to analyse the character of the co-evolutionary dynamics of how firms adapt over time. Nevertheless, potentially, a co-evolutionary framework by unifying theory and empirical research, can integrate micro and macro-level evolution, which can lead to ‘new insights, new theories, new empirical methods, and new understanding’

(Lewin and Koza, 2001: v-vi).

Despite the potential of the co-evolutionary framework, its utilisation has been limited. Co-evolution has been used to understand the abilities firms have to absorb new knowledge. Van den Bosch *et al* (1999: 551) considered the role that co-evolution plays in understanding the absorptive capacity that a firm has for assimilating new knowledge, particularly the ability of a firm to combine new knowledge within its existing organisational form. Helfat and Raubitschek (2000: 961) used the concept of co-evolution to explain how organisations build and utilise knowledge and capabilities over long time spans, in order to gain competitive advantages in single and multiple product markets. In addition, co-evolution has been used to explain the formation of networks and alliances. Koza and Lewin (1999: 638) used co-evolution to explore the stimulus for the formation of a professional service network in the public accounting industry. Rosenkopf and Schleicher (2008: 426-427) examined how formal alliances co-evolve within emergent, informal inter-organisational relationships in the wireless telecommunications industry. Indeed, co-evolution has been widely applied to information technology. Mitleton-Kelly and Papaefthimiou (2000: 164-165) looked at the co-evolution of the business process and information systems development as two domains, and considers how the degree of interaction between the two domains affects the rate of co-evolution between the two domains. Morrison *et al* (2007: 261) considered that businesses and their supporting software evolve to embrace constant revision, and adopted the term co-evolution to describe the concept of business and software evolving in tandem, but at potentially different rates. Therefore, co-evolutionary insights have scarcely been applied to corporate governance and CSR, and certainly not to the ability of MNCs to transfer their business principles.

However, Ashley (2010: 7) proposes that business strategies for CSR can be seen as a co-evolutionary process that is shaped by social, political, and institutional aspects through interactions between business, civil society, and the state; either at local, national, or global levels. This proposition can aid the understanding of the variety of perspectives for policies on CSR in an international context. Indeed, the MNCs of today are faced with greater institutional tensions than firms that operate solely within one country. This is because MNCs engage in activities across a wide variety of institutional environments. Consequently, MNCs have a greater stimulus to

engage in institutional entrepreneurship.<sup>24</sup> Furthermore, most of today's MNCs are structured as integrated networks containing autonomous subsidiaries. Such an ownership structure promotes incentives for MNCs to invest in transferring innovations, such as new routines, that are developed by subsidiaries together with transferring those innovations developed by the corporate parent. Therefore, when MNCs engage in institutional entrepreneurship they have an incentive to invest in developing new institutions within the firm.

One specific O advantage that a MNC might have is institutional ownership advantages that include corporate values, together with the imprint of L advantages of the home country's institutional environment. These advantages could be transferred to host countries to influence their institutional regime. This transfer could be either unintentional, through for example, unforeseen societal benefits that may be realised, or intentionally (Cantwell *et al*, 2010: 572). Intentional transfer could include, for example, promoting transparent accounting.<sup>25</sup> In addition, assuming that co-evolutionary logic suggests that the firm has a symbolic, co-evolving relationship with society as well as with the institutional environment, a co-evolutionary framework can surely provide business researchers with a perspective that links firm level activities to their effects upon society in an iterative process. However, the co-evolution between firm activities and changes in societal issues, and the challenges this creates for business in strategically addressing social issues, has scarcely been researched. As Seager (2008: 448) argues, the 'application of sustainability knowledge in ... management ... can be recognised as a necessity, but remains in mere nascent stages of development and may even depend upon further progress in other fields to become fully realised'. This is an important knowledge gap in the literature that this thesis will address.

#### **2.4: Institutional co-evolution.**

Co-evolutionary organisational theorists have tended to focus upon adaptation and co-evolution with competitors or with a community of firms at the meso-level. For example, Sørensen (2004: 149), in considering the labour market as a potential source of constraint in the entrepreneurial process, used an organisational ecology framework

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<sup>24</sup> Institutional entrepreneurship is where actors use their social and political skills to engineer institutional change (Wijen and Ansari, 2007: 1079).

<sup>25</sup> Unintentional and intentional transfers will be considered in the concluding chapter (Section 10.1).

to examine how founding rates in a sector varies with the degree of competition with other sectors for labour, and consequently found evidence of recruitment-based competition in a community ecology. Literatures on innovation systems stress the institutional level as the agent for change. For example, Freeman (2002: 191, 209) focused upon complementarity between sub-systems of society and on models of active learning in the UK, the USA, and catch-up economies in a historical context; concluding that the major contributors to forging ahead, catch-up, and falling behind in the 19<sup>th</sup> and the 20<sup>th</sup> centuries can be explained in terms of national systems, although operating in an international context and recognising differing levels of development at the sub-national level. Neither literatures consider co-evolution in terms of the firm itself being an agent for change. A variety of firm-level initiatives have the potential to effect the wider institutional environment.

Cantwell *et al* (2010: 568-569) suggest that MNCs can have a significant influence upon the institutional environment, presenting a framework for firm-level adaptation by MNCs and their subsidiaries influencing the institutional environment in host countries. Cantwell *et al* adopt an approach that borrows from two respected scholars.

Firstly, North (1994: 361-362), an economic historian, argued that institutions and organisations shape institutional evolution. Institutions set the rules of the game, whilst organisations are the players. Organisations can include regulatory bodies, firms, social bodies, and educational bodies. Such organisations that exist are dependent upon the opportunities provided by the institutional environment. Economic change results from the choices of actors within organisations. Whilst most of these choices are routine, some of these choices involve changing existing mindsets so that the norms of behaviour are gradually modified. As a result, institutions are evolving. In essence, the most fundamental long-run driver of change is learning by actors within organisations.

North (2005: 2-3) also wrote that the dominant beliefs of political and economic actors that are the decision-makers over time result in the formation of institutions that determine economic and political performance. The institutional environment that results can impose severe constraints on the choices that firm actors can make when they seek to innovate or modify institutions. The subsequent path dependence makes change incremental, although occasional abrupt institutional change suggests that

something similar to the punctuated equilibrium change in evolutionary biology can occur in economics. Change can continually occur as organisational actors improve or revise routines to improve their competitive position, with a resultant change in the institutional environment. However, the key to understanding this process of change is the intentionality of the actors enacting institutional change and their perception of the issues. Throughout history economic growth has been episodic because either the actors' intentions have not been societal well-being or their perceptions of the issues have been so imperfect that the result has been radically different from what was intended.

Secondly, Nelson (2002: 9), an evolutionary economist, wrote that economists who developed evolutionary theory have been influenced by neo-classical economic growth theory, and have suggested that technological change has been the key driver of economic growth. When one recognises that technological change occurs in an evolutionary process, a growth theory radically different from the neo-classical one can be formed. However, evolutionary growth theory, just like neo-classical economic growth theory, has not embraced the complex institutional structures that condition modern economies.

Nelson (2003: 910) also wrote that it is important to get a grip on the nature of modern human know-how. Some of it involves a sophisticated understanding of why practice works, and some of it also involves an understanding from experience that practice works. A cumulative advance of human know-how must be understood in the context of a process of learning or evolution. That cultural evolutionary process does, in turn, involve the co-evolution of technique and understanding. In addition, once one has recognised this, it becomes apparent that our learning or evolution works much better in certain arenas than it does in others.

Nelson (2007: 73) further wrote that evolutionary theorising about economic phenomena has a long tradition, and over the past quarter century significant literatures have been written on the process of change in business organisation and economics. In both of these fields, Darwin's broad proposition that change occurs because of a process involving variation, systematic selection, and renewed variation has proved significant. Nevertheless, the evolutionary processes involved differ in essential ways from those operating in the evolution of biological species.

Cantwell *et al* (2010: 567-568), by elaborating on these approaches, developed a co-evolutionary framework within the context of the eclectic or OLI paradigm, and therefore firmly within the international business context, linking historical changes in the character of MNC activities to changes in the institutional environment, focusing upon the scope for firm-level creativity and institutional entrepreneurship leading to changes in the wider institutional regime. Therefore, distinct from other related literature, their approach considers micro processes of change influencing the institutional regime.

Nelson and Sampat (2001: 44-45) proposed a distinction between physical and social technologies. What constitutes a routine involves two different aspects, which are a recipe that is anonymous regarding any division of labour, and a division of labour in collaboration with a mode of coordination. The first aspect is what scholars are often considering when they are talking about technology in the conventional sense, and Nelson and Sampat refer to this aspect of a routine the physical technology that is involved. However, the second aspect involves the coordination of human action, which they refer to as the social technology that is involved. Organisational forms, such as a firm, implement particular social technologies because they are believed to be the appropriate ways to organise economic activity. For example, Ford's organisation of mass production was followed for a long time by many firms engaged in producing assembled products. Today, lean production pioneered at Toyota is now considered the norm. Therefore, the emergence of new social technologies within the firm, or in other words, the emergence of a new coordination of human action can influence change. However, certain social technologies become the norm, whilst others do not, reflecting the fact that there is always a variety of institutional arrangements that are considered appropriate for any given institutional environment (Cantwell *et al*, 2010: 570).

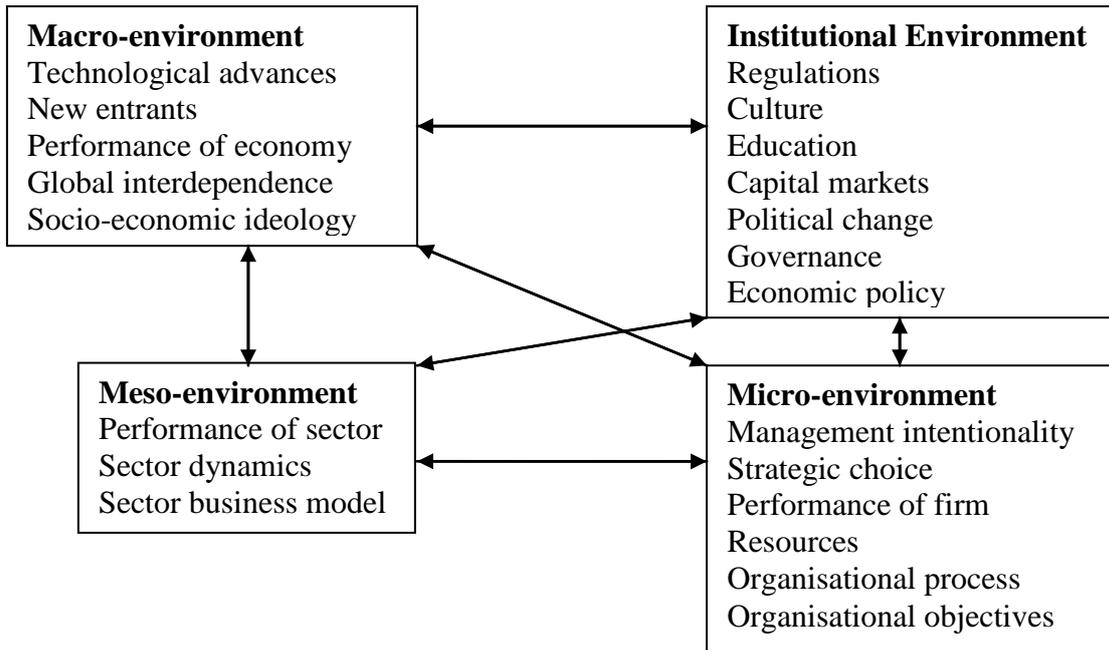
Nelson and Sampat (2001: 33) raise an important point here, which is what is the right general definition of institutions? However, they do not provide an answer to this question because they rightly consider that particular definitions may be appropriate for different kinds of analysis. Nevertheless, for the purpose of this thesis, North (1990: 5), in analysing institutions and economic growth, distinguishes between institutions and organisations. The interaction between institutions and organisations shape the institutional evolution. Organisations are made up of groups of individuals bound

together by a common purpose to achieve certain goals. Organisations include political bodies (for example, political parties or regulatory bodies), economic bodies (for example, firms or cooperatives), social bodies like Non-Governmental Organisations (NGOs) for example, and educational bodies (for example, schools, universities, or vocational training centres). Under his conception, institutions define the environment within which organisations operate, but the organisations themselves are not institutions. Nevertheless, organisations can influence the broad institutional regime in which organisations operate, and consequently, should be considered as part of four interdependent cycles within a broad institutional regime.

Organisations operate within either the micro, meso, or macro-environments, and can coordinate with the institutional environment as Figure 2.1 indicates. For the purpose of this thesis however, this diagram has been adapted to take into account the aims and objects of the research, as can be seen in Figure 2.2. In both these diagrams, each environment is dependent upon the others. Figure 2.2 will be embedded within each chapter to highlight the co-evolutionary interactions taking place, and so the reader must refer to Figure 2.2 when reading these discussions. Nevertheless, Figure 2.2 will be revisited in the concluding chapter to highlight the co-evolutionary influences and interaction that this thesis has revealed; and consequently, Figure 2.2 must be viewed (as its title suggests) in the context of BP only as a potential change agent prior to investigating this potential. Essentially, the chapters prior to the concluding chapter will present the evidence, highlighting the co-evolutionary insights that informed how the material was viewed.

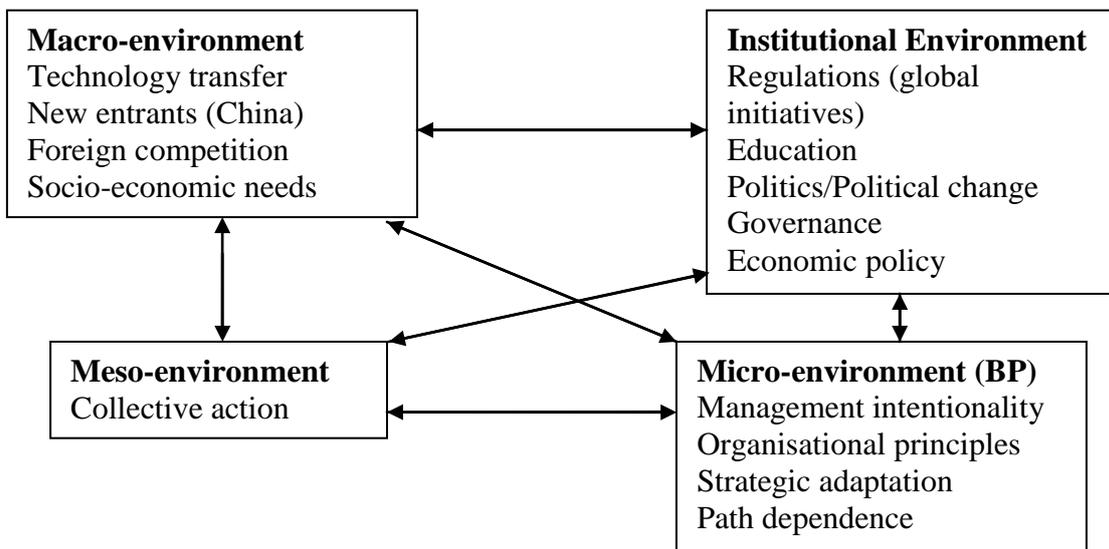
Lewin and Volberda (2003: 2128-2129) believe that co-evolutionary research must capture adaptation in a historical context; micro and macro co-evolution; and economic, social and political macro-variables. However, they consider that satisfying all of the requirements of co-evolutionary research is an extremely daunting prospect. Therefore, they believe that research does not need to satisfy all of the requirements of co-evolutionary studies in every single study, just as long as the co-evolutionary outcome is emergent.

Consequently, since indeed considering the interactions between all of the environments would be a daunting prospect, and because interactions between every



**Figure 2.1: The Institutional Regime: Co-evolution as Interdependent Cycles**

**(Adapted from Lewin and Koza, 2001: vii, and Child and Rodrigues, 2003: 2139).**



**Figure 2.2: The Institutional Regime: BP as Potential Change Agent.**

environment was not appropriate due to the fact that this thesis is only considering BP in the micro-level acting as change agent to the other environments, and not always the other way round, Figure 2.2 was conceived to embrace the nature of this inquiry. Therefore, whilst the arrows acknowledge that each environment is interdependent, it is BP's influence upon the other institutional environments that this thesis is concerned with. A factor that will be considered which influences BP's ability to transfer their business principles to influence the wider institutional regime comes from the macro-level, in particular the new entrants (China). Nevertheless, their ability to transfer these standards, and act as a change agent in a host country is the basic subject of this thesis, and consequently, the next chapter will be concerned with how this ability will be investigated.

### **2.5: The limitations of the shareholding and stakeholding paradigms.**

Conventional current views on corporate governance (of which CSR is a part) rest on two broad pillars, namely the shareholding and stakeholding paradigms, which offer competing analyses and theories. Inevitably, this debate represents a polarised conceptualisation on how corporate governance should be understood. The shareholding paradigm<sup>26</sup> offers the conventional and dominant idea of individual liberty and the maximisation of shareholders' value is seen as the relevant objective to satisfy. In contrast, the stakeholding paradigm<sup>27</sup> offers the notion of social justice and thus the accommodation of broader stakeholders' interests. (Letza *et al*, 2004: 242-243). Since this thesis is not concerned with shareholder value, none of the shareholding perspectives are appropriate.

The notion of CSR can be seen as being derived from the stakeholder model, in the sense that various stakeholders send expectations to management about what they require firms to do under the banner of profit-making, law, ethics, and philanthropy (Carroll, 2004: 116). Consequently, a stakeholding perspective may have been relevant for this thesis. However, the trusteeship model,<sup>28</sup> in that it considers the current corporate governance situation, highlights the essential problem with all of these mainstream theories, both shareholding and stakeholding, which is their static

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<sup>26</sup> See Box 2.1.

<sup>27</sup> See Box 2.2.

<sup>28</sup> As outlined in Box 2.2.

The shareholding perspective includes inherent property rights theory, which is based on the view that private ownership is fundamental to a desirable social order and to the development of an efficient economy. It assumes that the right to incorporate is inherent in the right to own property, and corporations should be regarded as legal extensions of their owners. Firm assets are the property of the shareholders, and managers as agents of shareholders have no legal obligations to any other stakeholders. This then proposes to improve the Anglo-Saxon corporate governance system by enhancing the firms' accountability to its shareholders. Other shareholding perspectives include agency theory. Agency theory can be traced back to Adam Smith who identified an agency problem (managerial negligence and profusion) in the joint-stock company (Letza *et al*, 2004: 247-248).

Berle and Means (2009: 5) were concerned with the agency problem in the modern corporation as the separation of ownership from control became widened, which left excessive power in the hands of professional managers. With the emergence of the modern corporation, the power of professional managers was immensely enlarged whilst there was a reduction in the status of shareholders. The shareholders surrendered their wealth to professional managers and were no longer independent owners. Instead, shareholders were reduced to being mere recipients of the wages of capital. As they state, 'the modern corporation ... placed the wealth of innumerable individuals under the same central control'. Central to agency theory is the principal-agent relationship where the principal (shareholder) delegates work to the agent (director and manager) who performs tasks on behalf of the principal (Eisenhardt, 1989: 58). Assuming that individuals maximise their own utility, the agency theory then asserts that managers as agents will not always act in the best interests of shareholders. Rather, they may pursue their own interests. The agency theory then focuses on solving this problem by determining

**Box 2.1: The Shareholding Perspectives.**

the most efficient contract governing the relationship between the principal and agent. Stewardship theory criticises agency theory by claiming that managers are good stewards of the corporation. It argues that managers behave like stewards to serve the shareholders' interests and work to achieve profits so that shareholders can receive a high level of returns.

The finance model and the myopic market model both are related to agency theory. The finance model, like agency theory, is concerned with the effectiveness of market governance in ensuring that managers will act to maximise shareholders' wealth. If managers cause a firm to underperform, its share price will be lower, providing incentives for outsiders to buy stock and run the firm more efficiently. The myopic market model agrees with agency theory that firms should serve shareholders' interests only. However, it criticises the Anglo-Saxon model of corporate governance as it encourages managers to focus on short-term performance at the expense of long-term value and competitiveness (Letza *et al*, 2004: 248-249).

**Box 2.1 continued.**

conception of corporate governance and CSR. As Mueller (1995: 1220) highlights, this ignores 'the continuous and ongoing interaction between choices made, and the context into which choices are embedded'. By analysing corporate governance and CSR using such conventional static approaches, dynamic processes are forced to fit into these theoretical frameworks, and as a result, they become increasingly isolated or even ignored. Therefore, the shareholding and stakeholding paradigms are not sufficient for the purpose of this thesis due to the fact that they neglect the historical context of corporate governance and CSR. Consequently, since this thesis considers these issues dynamically, what is required is a theoretical framework that enables an understanding of how a firm's long-term strategies and learning capabilities have developed over time.

**2.6: Stakeholder theory.**

Although it has been highlighted above that the stakeholding paradigm is insufficient because of its static nature, stakeholder theory is usually utilised in studies that embrace

Amongst the stakeholding perspectives, social entity theory is directly at odds with inherent property rights theory, regarding a firm not as a private association united by individual property rights, but as a social entity for pursuing general community needs. Consequently, managers are representatives and guardians of all corporate stakeholders' interests. Social entity theory prefers to overcome market failures and transaction costs by legal intervention and improving checks and balances. The instrumental stakeholder theory supports this idea of multiple interests of stakeholders, but unlike social entity theory which justifies stakeholder interests on the basis of moral value and fundamental human rights, the instrumental stakeholder theory legitimises stakeholder interests subtly, which is more appropriate to the traditional Anglo-Saxon corporate governance mentality. It suggests that corporate governance should not move away from ownership rights, but ownership rights should be claimed by other stakeholders and not only by shareholders. The trusteeship model adopts a perspective that is realistic and descriptive when considering the current corporate governance situation. It argues that a public corporation is not created by a private contract and subsequently, is not owned by any individual (Letza *et al*, 2004, 250-252).

**Box 2.2: The Stakeholding Perspectives.**

CSR. Therefore, there is a requirement to explain why stakeholder theory was deemed inappropriate.

Originally published in 1984, Freeman's pivotal work on stakeholder theory: *Strategic Management: A Stakeholder Approach*, was republished in 2010. Freeman proposed an alternative approach to strategic management that embraced most of the concerns that had been identified in the field. Following on from, and summarising the work of many business thinkers,<sup>29</sup> Freeman offered a stakeholder management approach that:

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<sup>29</sup> Freeman (2010: iii) states that these include Ackoff, R., Emshoff, J., Rhenman, E. and Trist, E.

- embraced external analysis in order to aid firms in dealing with an increasingly turbulent environment;
- acknowledged that the firm had duties to other members of society other than shareholders;
- integrated economic and political strategies;
- was consistent with a contributor group approach;
- embraced adaptation and enactment;
- was consistent with management action;
- embraced the perspective of organisational learning;
- and embraced resource dependency (Freeman *et al*, 2010: 91).

The original stakeholder management concept was elaborated by Evan and Freeman (1993: 82) as containing two principles. Firstly, there is the principle of corporate legitimacy, where the corporation should be managed for the benefit of all its stakeholders, be they customers, suppliers, owners, employees, and local communities. Secondly, there is the stakeholder fiduciary principle, where management bears a fiduciary relationship to stakeholders, acting in the interests of the stakeholders as their agent.

Stakeholder management focuses on the interests of groups and individuals who affect, or in turn are affected by, the pursuance of the firm's objectives (Freeman, 2010: 52). By identifying, evaluating, and assessing stakeholders and stakeholder relationships, firms can navigate the strategic environments in which they operate in such a way that they can account for the range of relationships, responsibilities, and interaction between themselves and their stakeholders. Stakeholder theory attempts to address the question of which stakeholders deserve or require management attention through the evaluation of relationships between organisations and stakeholders based on exchange transactions, power dependencies, legitimacy claims, or other claims (Doh and Guay, 2006: 55). For example, Mitchell *et al* (1997) developed a theory of stakeholder identification and salience based on managerial assessments of stakeholders' possession of one or more of three relationship attributes: power, legitimacy, and urgency. According to this account, a party to a relationship has power 'to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship'. Legitimacy is defined as 'a generalised perception or

assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions’, while urgency is reflective of ‘the degree to which stakeholder claims call for immediate attention’ (Mitchell *et al*, 1997: 865-867).

### **2.6.1: Criticisms and the inappropriateness of stakeholder theory.**

There have been a number of criticisms of stakeholder theory, largely based upon the idea that shareholder interests are the only legitimate concern for a firm. For example, Sternberg (1997: 3) suggests that stakeholder theory is intrinsically incompatible with all business objectives and undermines both property rights and corporate responsiveness, and Hay (1996: 47) described stakeholder theory as ‘a rather vague and cryptic concept that is open to a wide variety of rather divergent ... interpretations’. Whilst stakeholder theory has also been criticised for weakening the fiduciary duty owned by managers to shareholders (particularly because shareholder investment is especially vulnerable and should be protected more than any other claims), weakening the power of certain stakeholder groups (such as employee interests that may be weakened by treating all stakeholders equally), weakening the corporation as a whole because attempts to serve the interests of all stakeholders would put it at a disadvantage when it comes to maximising shareholder value, and making the corporation virtually unmanageable because of the realities of considering all stakeholder concerns (Friedman and Miles, 2006: 119-122); other weaknesses make it inappropriate for this thesis.

The major problem with stakeholder theory is that because the term stakeholder has come to encompass a wide variety of interests, the theory has become bound-up in attempting to define and manage the relevant importance of these multiple interests. The idea of stakeholding will cease to be relevant unless the term is widened to refer to the general interest of society (Dine, 2005: 223). Indeed, stakeholder theorists appear to be overly preoccupied with how the questions of stakeholder identification are answered. According to Greenwood and Freeman (2011: 276-277), this includes whether stakeholders can be identified as primary or secondary, owners and non-owners, owners of capital, actors or those acted upon, actors with legal principles to whom agent-managers bear fiduciary duties, actors with voluntary or involuntary relationships with the firm, resource providers to the firm, risk-takers or influencers, dependents of the

firm, and moral claimants. The original definition of Freeman (2010: 46), stating that stakeholders are ‘any group or individual who can affect or is affected by the achievement of the organisation’s objectives’<sup>30</sup> is clearly an influencer definition in that it has instigated this pursuance of identifying stakeholders. However, in essence, the general interest of society is what this thesis is interested in, and stakeholder theory has yet to widen its scope and remains constrained by competing multiple interests. This thesis is not concerned with identifying which stakeholder interests are more important than other competing claims. Rather, it is concerned with the general interest of African society.

Freeman *et al* (2011: 55) state that ‘stakeholder theory is fundamentally a theory about how business works, at its best, and how it could work. It is descriptive, prescriptive, and instrumental at the same time and ... it is managerial. Stakeholder theory is about business and how to effectively manage a business’. Freeman (2010: 247-249) emphasises that he essentially constructed an approach for management to embrace the external environment in a systematic and routine way. This is because he viewed the business environment as complex, and consequently, it posed significant challenges. If the firm is to meet this challenge, it must have strategic management processes that routinely consider the external environment. However, this thesis is not interested in how management juggles the competing claims of various stakeholders. Rather, the issue in question is how the firm behaves to resolve the needs of multiple stakeholders, and stakeholder theory is not intended to provide a behavioural theory of the firm. In the context of this thesis, what is important are variables that affect organisational goals (such as external influences and/or expectations), and how organisations choose to respond to issues,<sup>31</sup> as these will both impact firm behaviour. However, even Freeman (2010: iv) himself recognises that his stakeholder management concept focuses ‘too much on the conflicts among multiple stakeholders rather than on

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<sup>30</sup> This definition originally appeared in the 1984 publication, and Freeman (2004: 58, 64) produced a different definition of stakeholders in later work by referring to them as ‘those groups who are vital to the survival and success of the corporation’, and as a result the two principles are altered and renamed. Firstly, there is the stakeholder-enabling principle, where corporations shall be managed in the interests of stakeholders. Secondly, there is the principle of director responsibility, where directors shall have a duty of care to use reasonable judgement to define and direct the corporation in accordance with the stakeholder-enabling principle. In addition, Freeman adds the principle of stakeholder recourse, where stakeholders may bring an action against the directors when they fail to perform the required duty of care.

<sup>31</sup> See Box 2.3.

It was Cyert and March (1963: 115-116) who proposed a behavioural theory of the firm, a basic framework for analysis that has two major organising devices. Firstly, there is a set of exhaustive variable categories, and secondly, there is a set of relational concepts. They proposed that one can analyse the process of decision-making in the firm in terms of the variables that affect:

- organisational goals,
- organisational expectations,
- and organisational choice.

Each of these will be considered in turn below.

### **Organisational goals.**

There are two sets of variables that affect the goals of an organisation, and these are what influences the dimensions of the goals (or in other words, what is viewed as being important), and what influences the aspirations for achieving any particular goal.

### **Organisational expectations.**

Organisational expectations result from drawing inferences from available information, and therefore, what is considered are the variables that affect the process of drawing inferences, or the variables that affect the process where information becomes available to an organisation.

### **Organisational choice.**

Organisational choice occurs in response to a problem, and the variables that affect organisational choice are those that influence the definition of a problem, the standard decision rules, and the order of consideration of alternatives.

In the course of developing these above three sub-theories, Cyert and March developed four relational concepts that are used in their behavioural theory, and these are the quasi-resolution of conflict, uncertainty avoidance, problemistic search, and organisational learning.

### **Box 2.3: The Behavioural Theory of the Firm.**

finding ... behaviours that dissolve those conflicts'. If a government at the institutional environment level is a stakeholder in the firm, together with society itself at the macro-level, then what we need is a story about how the firm behaves to resolve the conflict between, and addresses the needs of, these multiple stakeholders. In fact Freeman calls for a story about business that 'must also be one of business in society', and suggests that 'more than ever, we need a story about responsible capitalism'.<sup>32</sup>

Freeman believes that his stakeholder approach, together with others who have since developed and utilised the idea, should only be seen as 'a good place to start'. Whilst one must recognise the contribution made by Freeman's stakeholder approach, perhaps the time is right to move on to a narrative embracing responsible capitalism. This thesis argues that this can be achieved by adopting an institutional perspective.

Campbell (2006: 928-929) states that stakeholder theory examines whether and why firms attend to the interests of stakeholders, and is therefore related to CSR. However, as Campbell argues, 'most of the stakeholder literature focuses on defining important stakeholders, arguing that stakeholders have legitimate claims on corporations, advocating stakeholder management practices, and trying to show how stakeholder management affects corporate financial performance'. Therefore, it does not consider the conditions under which firms 'are likely to act in socially responsible ways vis-à-vis their stakeholders. In sum, all of this literature points toward but does not systematically develop an institutional analysis of CSR'. In fact, Campbell is concerned 'only with institutions and the sticks and carrots they provide that constrain and enable behaviour in ways that facilitate CSR'. Unfortunately therefore, whilst Campbell considers institutional factors, there is only an interest in what institutional conditions affect and/or influence CSR and not in how a firms' CSR activity can influence institutions.

### **2.6.2: Moving beyond stakeholder issues.**

Clarkson (1995: 103) distinguishes between stakeholder and social issues. A particular society determines what is a social issue, and enacts legislation and regulation to ensure that this social issue is addressed. In the absence of relevant legislation and regulation,

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<sup>32</sup> This is because in projecting his radical stakeholder management concept, Freeman (2010: iii) states that 'we still need a new story about business. The recent global financial crisis has made this plain. I believe that the central characters in that story must be companies and their customers, employees, suppliers, communities, and financiers. Other groups such as NGOs, governments unions, etc. may also be important to particular businesses'.

an issue may be a stakeholder issue but not necessarily a social issue. Whether an issue has become a social one can be determined by the presence of legislation and regulation that addresses it. Therefore, the requirement for legislation and regulation is necessary for an issue to be a social one, and this thesis is concerned with the firm behaving and/or acting as a change agent to influence the institutional environment as to what are social issues, moving beyond stakeholder issues, as will now be outlined.

In the preface to the 2010 reissue, Freeman (2010: iii) states that when he wrote the first publication, he felt that ‘managers had to deal with those groups and individuals that could affect or be affected by their company, i.e. stakeholders. That seemed to me, and still does, to be the essence of strategic thinking’. Freeman went on to stress that his publication did not ‘make the usual distinctions between economic and social, or business and non-business’, and found it ‘ironic that the scholars who have used and developed the idea the most were those in corporate social responsibility’. Surprisingly, Freeman argues, he continues ‘to believe, that social responsibility is one of those ideas that prop up a story about business that is no longer useful’, but Freeman goes on to recognise that ‘it is now old hat in many areas of business’. Nevertheless, as stated above, Freeman *et al* do stress that stakeholder theory is managerial, and this comment suggests that it was never really intended to be used primarily to study CSR. Furthermore, and to answer Freeman’s call for a new story about business, perhaps the time is right to move beyond stakeholder issues.

To the extent that thought has been given to the impact of CSR initiatives in the developing world, this tends to be solely at the micro-level, looking at what particular firms are doing with regard to their stakeholders, such as workers and local communities (Blowfield and Frynas, 2005: 507). Consequently, we do not know enough about big-picture issues such as what firms are doing to meet major development challenges such as infrastructure development and institutional capacity building. Freeman and Reed (1983: 96), state that ‘if this task of stakeholder management is done properly, much of the air is let out of critics who argue that the corporation must be democratised in terms of increased direct citizen participation’. However, even though these directions are prescribed, there is little discussion in stakeholder theory of the implications or indeed how a shift towards a new regulatory regime for the developing world could be achieved (Blowfield and Frynas, 2005: 509).

## **2.7: Discussion.**

To move beyond stakeholder issues to considering major development challenges, this thesis argues that a shift towards a new institutional regime for the developing world must be achieved, and the study of whether this is being achieved can be realised by embracing an evolutionary approach. To apply evolutionary theory to corporate governance and CSR effectively, it has to be recognised that firms are part of a co-evolutionary process. The origins of this process are initiatives and/or regulation at the institutional environment level influencing firm behaviour. The UK government has developed programs to influence business activity in CSR, covering the promotion of voluntary initiatives, institutional capacity building, transparency, and soft regulation. All of these programs have been developed out of dialogue between the government, the private sector, and civil society (Albareda *et al*, 2006: 394). The motivation for the UK government to develop such programmes is the fact that it ‘sees CSR as the business contribution to [their] sustainable development goals’ (Steurer, 2010: 2). Importantly therefore, governments have assumed the role as drivers of CSR, and at the start of this century, initiatives instigated by national governments around the world have converged with the emergence of initiatives from different international governance organisations, such as the UN Global Compact (Albareda *et al*, 2008: 348). Consequently, adherences to the Global Compact, together with three other such initiatives from the global institutional environment level (namely the Global Reporting Initiative, the Global Sullivan Principles, and the OECD Guidelines for MNEs) will be embraced in subsequent chapters.

As Ashley (2010) proposed, CSR at the micro-level results from a co-evolutionary process that has been shaped by social, political, and institutional aspects through interactions between business, civil society, and government (the driver). Once firm behaviour has been influenced by this co-evolutionary process, the firm can behave in such a way as to attempt to positively influence a host country’s institutional regime. Nevertheless, as Cantwell *et al* (2010) stress, this positive influence could be either intentional or unintentional. Furthermore, Cantwell *et al* (2010) developed a co-evolutionary framework that focuses upon the scope for the firm operating at the micro-level to engage in institutional entrepreneurship that can lead to changes in the wider institutional regime.

With reference to Figure 2.2, one can now see the co-evolutionary interaction that embraces the essence of this thesis. Regulation in the form of CSR initiatives from government (this thesis will focus upon the above mentioned global initiatives) at the institutional environment level (although soft regulation) influences firm behaviour at the micro-level, resulting in management intentionality and the organisational principles, although both of these can also be subject to strategic adaptation and path dependence. All of this in turn results in the firm (focusing upon BP as the example) acting as an agent for change to the wider institutional regime; including governance (transparency), education, regulation (when firms have input on regulation), politics (government-to-government interaction), and economic policy (institutional capacity building) at the institutional environment level; addressing socio-economic needs at the macro-level, together with the impact of the new entrants (China) and the related issue of foreign competition, and technology transfer (which in this context refers to managerial technology and is related to education at the institutional environment level); and collective action amongst differing firms in the industry at the meso-level to address all of these issues. In addition to this co-evolutionary interaction, the influence of CSR initiatives from the global institutional environment upon the Chinese firms will be considered, in the sense of how this impacts upon the behaviour of the Chinese firms, which in turn has an impact upon BP's behaviour; together with the influence of the Chinese firms upon education and governance in particular at the institutional environment level, as well as socio-economic needs within the same macro-level environment as China is as the new entrants. Subsequent chapters will analyse this co-evolutionary interaction, but prior to this, the next chapter will outline the methodology adopted for this thesis.

## **Chapter 3: Methodology.**

### **3.1: Introduction.**

As Oliver (2010: 78) states, social science research is usually portrayed as being rigidly divided between qualitative methods or quantitative methods, appearing as almost an ideological divide between researchers. However, it is far more appropriate to identify the specific requirements of an inquiry. By establishing the aims of this research project, it was identified which research strategy was best to fulfil those aims. The best strategy could have turned out to be either qualitative or quantitative, or even a combination of both. However, this chapter will establish that qualitative research was appropriate for this inquiry, to complement a literature study. In addition, it will also establish the reasons for choosing a case study design when assessing the ability to engage in institutional co-evolution. Furthermore, the strategy to seek in-depth qualitative accounts will be outlined, together with the special methodology, analytical narrative, in which interviews provided raw data for understanding the phenomenon. By combining in-depth interviews and historical firm evolution via a literature study, a deep understanding of the phenomenon was generated.

### **3.2: The literature review.**

As Barrientos (2007: 113, 115, 118-119) rightly states, any kind of research is going to involve conducting a literature review. A literature review may be the main focus of the study, or it may serve as background for another form of research. When conducting a literature review, it is useful to distinguish between a literature search, a literature survey, and a literature study. The initial phase of the literature review for this thesis, the literature search, was wide ranging in order to acquire a broad understanding of the topic which enabled a narrowing down of the focus of the research to more manageable areas to survey, the second phase of the literature review. At this survey phase, having defined the scope of the research, the pursuance of references and leads in the literature was embarked upon which directed the literature review in a more specific direction. When surveying the literature, initially this was done fairly 'blind' as one takes in much of what is presented at face value. However, at this phase it was possible to identify different approaches and ideas to further narrow and define the topic so that the survey could point the literature review towards relevant references.

During the progression of the literature survey, the literature study was initiated. The purpose of the literature study was to analyse the material, that is, approach the literature by analysing its relevance to the research being undertaken. There was no single point of transfer from survey to study because as analysis was engaged in, new material to survey was continually discovered. Nevertheless, the literature was increasingly reviewed from a more analytical standpoint. This highlights the fact that the literature review in this thesis was not conducted to identify a problem and then address it by primary data collection, or in other words, it did not serve as background for another form of research. Rather, although not the main focus of the study, the literature review was part of the analysis of the problem, including secondary data in the form of company reports, and it was complemented by primary data. Lewin and Koza (2001: x) call for qualitative insights together with event history descriptions for co-evolutionary studies. In order to meet this requirement, primary research was initiated during the literature study stage of the thesis. The remainder of this chapter will be concerned with the choice of an appropriate research strategy for this thesis.

### **3.3: Choosing a case study design.**

What distinguishes a case study design is that the researcher is concerned with discovering the unique features of a case (Bryman, 2008: 54). Engaging in a case study analysis involves conducting an in-depth contextual analysis of a particular situation concerning a particular problem. A case study is useful for obtaining several clues as to why and how certain factors might be operating. Case studies usually provide qualitative data for analysis and interpretation, and are highly appropriate for understanding certain phenomena that may promote the generation of explanations that can be expanded upon by further studies (Sekaran and Bougie, 2010: 30, 109). Indeed, proponents of case study designs usually favour qualitative methods because they are considered to be particularly useful for generating an in-depth analysis of a case (Bryman, 2008: 53). This thesis has attempted to gain an in-depth account of the transfer of corporate governance and CSR principles to Africa, and therefore, a case study design was deemed appropriate.

Having identified the relevance of conducting a case study, the challenge of beginning the case study was confronted. This was a process in which firstly, it was defined what was to be examined. Secondly, the specific case was selected that was to

be the subject of the case study. It is important here to highlight the distinction between the case and the case study. Yin (2004: xiv-xv) defines the case as ‘the real-life set of events from which data will be drawn’. The case study, on the other hand, is the substance of the research inquiry. This includes the research question, the theoretical perspectives, the empirical findings, the interpretations, and the conclusions. Nevertheless, researchers have benefited from defining a topic for a case study, and have then selected a relevant case from which to collect data. The relevant case does not necessarily have to be an extraordinary real-life set of events, but it may reflect a set of circumstances that can be viewed as being typical. It is therefore, useful for one to make the distinction between different types of cases. These are outlined in Box 3.1 on the next page. A case study may not necessarily have to be defined as just one of these distinct types of cases, as it can involve elements of two or more types of cases (Bryman, 2008: 55-56).

The nature of the inquiry in this thesis is to discover whether the historical co-evolution of the business principles of the firms involved can provide insights into the CSR packages that have emerged and are being implemented today in the oil sector in Africa. Angola was chosen as a critical case to develop an in-depth understanding of the issues in order to tackle the research question because all of the firms under consideration in this research project are engaged in operations there. Although Angola could also be considered to be an extreme or unique case because there are certain intrinsic factors that are unique to the country, for example, emerging from a long civil war; it should be regarded more as having features of a representative or typical case because Angola exemplifies the broader category of oil exploration and extraction in Africa. Angola has a growing oil sector which is perceived as essential for the development of the nation, and such development issues are applicable to other oil-producing countries in Africa.

### **3.4: Company reports.**

Transparency relates to the fact that the reporting of the external impacts of the actions of a MNC can be procured from the MNC’s reporting. Key facts should not be disguised in that MNC’s reporting mechanisms. Therefore, all of the effects of the activities of a MNC, including external impacts, should be available for all to view within the MNCs reporting mechanisms. Transparency is of particular relevance and

- The critical case, where the researcher chooses a case to develop an in-depth understanding of a phenomenon whereby a research question can be answered.
- The extreme or unique case, where the researcher chooses a case that holds an intrinsic interest that makes it essentially unique.
- The representative or typical case, where the researcher chooses a case that exemplifies a broader category of which it could be considered a part. A case is not chosen here because it is unique or unusual in some way. Rather, it is a typical example of a broader category of cases that could have been chosen to conduct the inquiry, and the case is chosen because it is viewed as being representative of a broader category.
- The revelatory case, where the researcher has an opportunity to inquire about a phenomenon that was previously not open to investigation.
- The longitudinal case, where the researcher chooses a case that may be investigated over time.

**Box 3.1: Different Types of Cases (Bryman, 2008: 55-56).**

importance to external users of MNC's reports because these users of this information tend to lack the background knowledge that internal users have. Consequently, transparency can be seen as being integral to the responsibility of a MNC, in relation to the fact that they are transferring power to external stakeholders (Aras and Crowther, 2009: 146), suggesting that company reports can certainly be utilised, but what would be a correct approach?

Balzer and Kroher (2006: 369, 374-377, 379) attempted a systematic assessment of the CSR practices of large European firms. Data and facts were gathered on the firms' human resources, community service, environmental protection, financial strength and performance, transparency, and communication of CSR principles. A points system was adopted, and they scored each firm on how they performed according to the data and facts that they obtained, with the maximum for human resources being 25 points, community service 25 points, environmental protection 20 points, financial

strength/performance 15 points, and transparency/communication 15 points, adding up to a possible maximum of 100 points. Their findings showed that BP had the best CSR practices of all large European firms, with a score of 74.3 points, with Anglo American second with 72 points. However, the flaw in their methodology is that it relied heavily on written materials supplied by the firms themselves, although they did draw upon data from the independent media. They did not appear to seek academic evidence, for example, in order to possibly gain a more critical insight on firm activities, which means that their research was seriously flawed. Therefore, is it appropriate to solely rely upon company material?

BP is arguably the oil MNC that is the leader in reporting the impacts of their operations, certainly in comparison with the other four ‘majors’. This is highlighted in Table 3.1 on the next page. This table also highlights the lack of sufficient data on environmental impacts provided by the two Chinese NOCs that are engaged in operations in Angola. Indeed, as Frynas (2009: 85) states using the China National Offshore Oil Corporation (CNOOC) as one example, ‘many oil companies from developing economies provide little concrete data on social and environmental issues’. However, as Frynas further states, ‘the introduction of CSR or sustainability reports by many firms from developing economies ... suggests that there has been some imitation of Western practices’. Therefore, concerning the Chinese NOCs, their company reports did provide some data upon the impacts of their operations for analysis.

The Business and Human Rights Resource Centre<sup>33</sup> considers BP, along with Anglo American, to be amongst the firms that produces the best company reports on human rights issues (Avery *et al*, 2006: 85). However, according to Crane (2008: 222) a firm like BP invests in defensive approaches to communicate their responsibility, such as social responsibility, sustainability, and human rights reports, in an attempt to deflect the wider ethical gaze of NGOs and other potential critics, all to protect the firms’ reputation. Indeed, Doane (2004: 86-87) considered the issuing of company reports in which firms can mask negative impacts by excluding it from the report. BP engaged in an apparent transparent stakeholder dialogue in Papua, Indonesia concerning the

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<sup>33</sup> The Business and Human Rights Resource Centre is the world’s leading independent resource on the subject, and aims to encourage companies to respect human rights, to provide easy access to information for companies and NGOs, and to facilitate informed decision-making and public discussion (Business and Human Rights Resource Centre, 2011).

| <b>REPORTING OF:</b> |                    |                |                      |            |            |                                  |
|----------------------|--------------------|----------------|----------------------|------------|------------|----------------------------------|
|                      | Hydrocarbon spills | Produced water | Greenhouse emissions | Flared gas | Energy use | Environmental management systems |
| BP                   | Yes                | Yes            | Yes                  | Yes        | Yes        | Yes                              |
| Royal Dutch Shell    | Limited            | Limited        | Yes                  | Yes        | Limited    | Limited                          |
| Exxon Mobil          | Yes                | Yes            | Yes                  | Yes        | Yes        | Limited                          |
| Chevron Texaco       | Yes                | No             | Yes                  | Limited    | Yes        | Yes                              |
| CNOOC                | No                 | Limited        | No                   | No         | No         | Limited                          |
| Sinopec              | No                 | Limited        | Limited              | Limited    | Limited    | Limited                          |

**Table 3.1: Reporting of Core Environmental Indicators (Selected Companies) in 2006 (adapted from Frynas, 2009: 72-73).**

Tangguh liquefied natural gas project.<sup>34</sup> Despite such dialogue, local community members in Papua believed that they were forced and tricked into selling their land by BP. However, this and other examples of negative feedback about the project were simply omitted from BP's environmental and social report of 2001, when the project began, and there remains no opportunity for stakeholders to challenge the report. Therefore, so long as BP's reputation is enhanced in the 'glossy' report, facts appear not to matter. This is what Albert Wong, global policy advisor to Royal Dutch Shell, calls the 'heart and mind' systems of corporate governance, where upholding reputation and protecting the brand is of great importance, and these factors are perhaps also of prime importance to BP (Fahy *et al*, 2005: 173).

The particular specifics of social and environmental concerns about firm actions are therefore, possibly less important to the firm itself than the potential damage to the

<sup>34</sup> BP wanted to 'get things right from the outset' in this project, and engaged in environmental, social, and economic impact assessments. BP even contacted the UK's Department for International Development and the USA's Agency for International Development for advice, and consulted NGOs and other stakeholders (Lodge and Wilson, 2006: 56-57).

firms' reputation. As a result of this, it can be considered that a firms' company report obtained via their website that advertises their CSR principles is little more than a public relations exercise to protect the firms' reputation, rather than reflecting a more actual concern about the very social and environmental issues that the report may claim the firm attempts to uphold (Godfrey-Isaacs, 2004: 86). Therefore, relying solely upon company reports, as Balzer and Kroher did, is an insufficient source of data on the impacts of BP's operations. Nevertheless, information obtained from BP's company reports were utilised, together with data from reports produced by Royal Dutch Shell, Chevron, CNOOC, and Sinopec; as and when it was deemed relevant to the research. In particular, in order to achieve a balanced analysis, information in company reports was tested by interviewee evidence in Part 3.

### **3.5: Choosing a qualitative research strategy.**

In choosing a qualitative research strategy, the study is not attempting to measure attitudes or to specify the exact nature of relationships between variables. Instead, it is concerned with procuring in-depth accounts from people who are perceived as being knowledgeable about the issues in question, and in addition, the interviewees have the room to select which aspect they choose to emphasise (Barbour, 2008: 115). The nature of the inquiry in this thesis, the practical impact of the implementation and transfer of firms' evolved business principles to Angola, means that procuring in-depth accounts from knowledgeable people was certainly applicable. The thesis did not attempt to measure or identify relationships between variables. Therefore, a qualitative research strategy was appropriate, rather than a quantitative strategy. Furthermore, Lewin and Koza (2001: x) considered that co-evolutionary studies should use event history modelling and contextual insights to understand which type of co-evolution is taking place, and this calls for qualitative insights to compliment event history descriptions.

Smith (1998: 349) states that qualitative research can be conducted using a variety of research methods, including in-depth interviews to gain an informed account of the relations and processes involved. Smith feels that this kind of research strategy can generate informed and well illustrated accounts, and provides greater depth than quantitative research. Whilst quantitative research strategies collect evidence that is standardised and measurable, it lacks depth.

The first two stages of the literature review served to establish background knowledge and raised issues to be explored in the primary data collection phase of the thesis to compliment the literature study. The nature of the inquiry demanded that knowledgeable people's views should be sought, and the strategy adopted for this will now be outlined. The research strategy is concerned with investigating development issues, which is appropriate given that the location of the inquiry is Angola, and to assess what resource-based firms can do to promote development. Although this thesis is within the international business paradigm and could be described as being concerned with business history, co-evolution, path dependence, strategic adaption, or corporate governance and CSR; Lawson (1994: 258) believes that social scientists should be flexible and innovative in choosing a methodology to conduct an inquiry,<sup>35</sup> and perhaps in choosing a method that would not necessarily be normally applied to these areas meets this call for flexibility.

### **3.6: The four-point strategy to seek people's views.**

Woodhouse (2007: 159) proposed a four-point strategy to confront an inquiry that seeks people's views. The strategy is concerned with investigative approaches that development managers and development policy investigators need when attempting to find out from other people. This four-point strategy will now be considered in turn within the context of how it was utilised in this thesis.

### **3.7: The first point: defining the population.**

To begin with, the population was defined, that is, the boundary from within which people were selected to take part in the inquiry was identified. This decision involved the relative importance of expert and lay views (Woodhouse, 2007: 162). The nature of this thesis, which sought people's informed opinions concerning the implementation of business principles, demanded that expert views were required. This is what Hanlon (1998: 67) describes as seeking 'those who know', who are experts that are already involved with the issues that can inform the inquiry. Therefore, the population that was

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<sup>35</sup> Lawson (1994: 258) provides an example of attempting to use a particular method regardless. A stick cleans a dusty mat because it beats it, and with the assumption that if the stick works in one job then it will for related jobs, someone attempts to clean a dusty window with a stick, only to find that it breaks it. Lawson believes that objects of inquiry have complex internal structures, and this is of great consequence when it comes to selecting methodologies. In essence, Lawson believes that 'one size does not fit all', and social scientists should be flexible and innovative in choosing a methodology.

defined is those who have expert views. Such a population includes expert witnesses and key informants.

### **3.8: The second point: deciding who to speak to.**

With the population defined, it was then decided who should be spoken to. There are two distinct approaches that can be followed, namely a sample survey or focused interviews. A sample survey aims to generate a description of a wider population, providing answers to ‘what?’ questions, such as what percentage of a workforce is satisfied with their jobs? The other main approach is the use of focused interviews, and this approach was chosen to procure the in-depth accounts that this thesis required. The two variants of this approach include purposive or theoretical sampling, where subgroups are sampled more or less heavily dependent upon their relevance to the research. Expert views were sought from the academic and the aid agency/NGO community. This thesis also sought key informants, who met Hanlon’s criterion of ‘those who know’, and they were chosen not because they are representative of a population, but because of their knowledge of the issues in question (Woodhouse, 2007: 163-165). Key informants were sought from Anglo American and BP.

#### **3.8.1: Sampling expert witnesses.**

Conducting interviews with people who have expert views in a community is known as elite or expert interviewing of expert witnesses (Kvale, 2007: 70). The focus in interviewing expert witnesses was that it was used as a complimentary instrument for another form of research, the literature review or literature study. Expert witnesses have interpretive knowledge and perceptions that refer to their specific professional activity (Flick, 2009: 166, 168). Although such interviewees normally have powerful positions due to the fact that they were experts in their relative fields and were being interviewed by a PhD researcher with only ambitions to reach such a position, affecting the powerful position of the interviewer, this was balanced by engaging in an interview that was more like a conversation. In order to be an interesting conversation partner, the author of this thesis as the interviewer demonstrated knowledge of the issues in question during the interview. This was achieved by contributing the researcher’s perceptions of the issues in question, together with examples of the kind of insights being sought which provoked new responses. Indeed, confident respondents, such as the expert witnesses, were stimulated by this intellectual challenge. In addition,

some interviewees had further viewpoints that they wanted to communicate via the interview, and felt comfortable with doing this since the author had earned respect. Furthermore, familiarity with the position and biography of the interviewee was acknowledged so the kind of knowledge that could be procured during the interview was identified. However, the major problem with interviewing expert witnesses is obtaining access to such interviewees (Kvale, 2007: 70, 76), as will be seen below. Expert witnesses tend to have busy schedules, meaning that they either may not be willing to give interviews in the first place, or the interview itself may have to run to a tight schedule.

For interviewing expert witnesses, the selection of interviewees was based upon purposive sampling (Flick, 2009: 168). Purposive sampling involves the selection of a community with the necessary characteristics (Gobo, 2008: 418-419). The aid agency/NGO community was regarded as having the necessary characteristics because, as Frynas (2009: 25) states, BP, relative to US-based oil companies who have little stakeholder pressure on them, face an ethical gaze from many powerful NGOs based in London.<sup>36</sup>

Teegen *et al* (2004: 473) consider the neglected force in the institutional environment, NGOs. Neglected that is, by international business researchers. They call for international business researchers to catch up with other disciplines in incorporating NGOs into research. However, they are not clear on how incorporating NGOs into research may add to international business research, and consequently, this thesis addressed this issue by seeking the expert views that this community can provide. Initial contact letters were dispatched requesting face-to-face interviews, with a view to requesting an email interview if this was unsuccessful. However, the response from all of the organisations contacted<sup>37</sup> was that they are overwhelmed with interview requests, and consequently, they have a policy of not granting interviews. Consequently, further letters were dispatched to request only email interviews, which were met with similar

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<sup>36</sup> Furthermore, in attempting to focus on controversial issues, activists engaged in the field can play a significant role as expert witnesses (Carson, 2001: 18).

<sup>37</sup> The organisations contacted within the aid agency/NGO community were Action Aid, Amnesty International UK, the British Council, CARE International, Christian Aid, Friends of the Earth, the Overseas Development Institute, Oxfam, Save the Children, TraidCraft, War on Want, and the WWF (GB).

answers or no response at all. To overcome this problem, it was decided to seek expert testimony from the aid agency/NGO community.

### **3.8.2: Expert testimony.**

An expert witness can describe authoritatively the professional viewpoint of a community of organisations, even though that interviewee may not be directly involved in all of those organisations. This is known as expert testimony<sup>38</sup> (Goodwin, 2002: 293). In order to seek expert testimony on the viewpoint of the aid agency/NGO community, a relationship was fostered with an expert witness within the Corporate Responsibility (CORE) Coalition.<sup>39</sup> Although this expert witness is not directly involved in every organisation within the aid agency/NGO community, this witness was able to authoritatively describe the viewpoint of that community as a representative of the CORE Coalition. Such an expert witness should only agree to accept questions that can be answered with professional competence (Sanders, 2007: 1545), and thus it was established at the commencement of the interview whether he or she felt equipped to deal with the line of enquiry.

In order to provide balance in interviewee evidence, Rubinfeld (1985: 1096) proposed choosing a neutral expert. As it turned out, the views of this ‘neutral’ expert witness provided decisive weight against the evidence provided by the academic community (see below) when the interviews were analysed (Posner, 1999: 96). It should be noted that this witness providing expert testimony is usually forced not to grant interviews because of a busy schedule, but was willing to grant a face-to-face interview

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<sup>38</sup> A useful analogy can be made here by considering the defence of the Los Angeles police officers who were on trial for the beating of Rodney King. The event was caught on video tape, but the defence lawyers did not treat the tape as a record that spoke for itself. Rather, they contested that the tape could only be understood by embedding what happened within the daily work life of the law enforcement profession. Using expert testimony from law enforcement agents who were not present at the scene of the event, the defence established that the police officers could legitimately use force if they perceived Rodney King’s actions as aggressive and/or a threat as this is the common perceptual framework that is shared by all law enforcement agents. Therefore, expert witnesses who were not directly involved in the event described authoritatively how the police officers could legitimately act in their professional opinion (Goodwin, 2002: 292-293).

<sup>39</sup> The CORE Coalition is an alliance of over 130 members including representatives from ethical businesses; women’s, religious, and development and human rights groups; all lead by a steering group of Action Aid, Amnesty International UK, Friends of the Earth, TraidCraft, War on Want, and the WWF (GB). All of the Coalition’s members within the aid agency/NGO community believe that to improve how UK companies behave, there is a need for greater transparency, and a greater accountability of businesses for their impacts on people and the environment (CORE Coalition: 2009).

on this occasion due to the fact that the initial contact was engaged with professionally, namely a letter of introduction stating the nature of the inquiry and the information required.

Having identified a community with the necessary characteristics (purposive sampling), snowball sampling, can be used to identify other potential interviewees with the same characteristics (Gobo, 2008: 418-419). It should be noted here that the expert witness was asked to recommend other people/organisations who could provide similar testimony, and a couple of recommendations were made.<sup>40</sup> However, after engaging in contact with them, they declined to grant interviews because of busy schedules.

### **3.8.3: Sampling the academic community.**

In addition to the aid agency/NGO community, the academic community was also regarded as having the necessary characteristics. Academics that had a detailed understanding of the issues in question as they accommodated them within their professional activity were contacted. The position and biography of the academics was established in order to identify the kind of knowledge that could be procured. Once these academics regarded as having the relevant knowledge were engaged with, they were asked to recommend other academics with the necessary characteristics.

However, such snowball sampling only produced a handful of academics who were considered to have adequate knowledge, as the selection criteria for interviewing this community was seeking those academics who were the leaders in their field. Nevertheless, qualitative research that involves conducting interviews usually means asking open-ended questions to small samples (Silverman, 2006: 19). Open-ended and flexible questions in a semi-structured interview obtained considered responses that reflected an interviewee's views, understandings, and opinions. This achieved a level of in-depth understanding which is unique to this approach (Byrne, 2004: 182).

### **3.8.4: The reason for selecting expert witnesses.**

An expert witness is not an advisor or consultant, but someone who testifies, offering what the legal profession would regard as evidence. The principal significance of this classification is that expert witnesses are invited to offer an opinion rather than being limited to merely testifying from personal knowledge. People acting as expert witnesses, including most business and economic expert witnesses, and unlike most lay

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<sup>40</sup> This were Rising Tide and Tomorrow's Company.

witnesses, have an interest in creating and preserving their professional reputation by being honest and/or competent respondents. This means that they are highly likely to only give answers and/or opinions that are based upon their expert knowledge. Even if an expert witness, in this case the academic expert witnesses, has no record of academic publication (such as was the case for Doctor Hale)<sup>41</sup> or is providing expert testimony about matters on which he or she has never published (such as Doctor Gbadamosi), the witness would appreciate that their evidence will be subject to intense critical scrutiny in the analytical stage of the thesis, which would deter irresponsible testifying (Posner, 1999: 92-94). This brings attention to the reason for seeking testimony from experts, especially the academic expert witnesses with extensive published material, which is the fact that during an interview, the interviewer can engage in probing.

In qualitative research the interviewer can ask probing and clarifying questions to establish more detailed accounts that would not be possible by, for example, simply reading an academic's publications (Molloy and Woodfield, 2002: 6). Because the purpose of engaging in qualitative research interviews was to gain a deep understanding of the interviewee's experience and perspective, using probes effectively was an important tool. By probing an interviewee, the richness of the data was enhanced, with the result that a better understanding of the phenomenon was generated (Maykut and Morehouse, 2004: 95).

Patton (1990: 238) defines a probe as 'an interview tool used to go deeper into the interview responses', and the generation of deeper meaning required active questioning and probing (Hopf, 2004: 204). Probing questions generated full explanations as to why phenomena occurs (Molloy and Woodfield, 2002: 32). The probes were essentially a tool to communicate to the interviewee what was required, be it more detail, elaboration, or clarity. In this way, the probes provided guidance to the person interviewed.<sup>42</sup> Furthermore, the probes provided the author of this thesis, as the interviewer, with a way to maintain control of the interview in order to extract the information required. (Patton, 1990: 327).

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<sup>41</sup> See Box 3.6.

<sup>42</sup> The kinds of probes that were utilised during the interviews are outlined in Box 3.2.

Probes were utilised to deepen the responses to a set of questions, and to give cues to the interviewee about the level of response that was required. The word probe itself was actually avoided during the conduct of the interviews. This is because the expression ‘let me probe that further’ tends to sound as if the interviewer is preparing to conduct an investigation into something illicit or illegal. Rather, a probe was used as a follow-up question to go deeper into the interviewee’s responses, and as such, the probes were conversational and offered in a natural style and voice.

There were essentially three types of probes that were utilised during the course of conducting the interviews, as will now be outlined.

**Conversational probes.**

Conversational probes were an extension to the basic how and why questions, and were used to obtain a more complete and detailed picture. These probes were used to fill in the blank spaces of a response, and involved asking follow-up questions such as:

How did that come about?

Why did that happen?

**Elaboration probes.**

There were times during an interview when the requirement to keep the interviewee talking about an issue was necessary, particularly because it was deemed that the quality of the response being received was high and relevant. In such cases elaboration probes were used. Elaboration probes involve ways to cue interviewees that they should keep talking. The best cue that was utilised to encourage continued talking was a gentle nod of the head accompanied by a spoken ‘yes’, both of whom were intended to communicate that the interviewee was being listened to and the interviewer wanted to go on listening because the response was interesting and answering the question.

Together with the simple spoken ‘yes’, elaboration probes with more direct verbal forms were used, consisting of a statement or request that the

**Box 3.2: Probes Utilised during the Interviews (Patton, 1990: 324-326).**

interviewee should keep talking:

Can you give me some more detail about this?

**Clarification probes.**

There were times when an interviewee needed to be encouraged to keep talking because the response was not fully understood, and in such cases clarification probes were used. Clarification probes told the interviewee that more information was required, or that what was being said was not being understood, and involved a simple verbal expression such as:

Could you clarify on that?

It should be noted here that a clarification probe was used naturally and gently. This is because an interviewer must convey the notion that the failure to understand is the fault of the interviewer, since an interviewee could be made to feel uncomfortable and/or inarticulate if the impression is given that it is the interviewee's fault that there is confusion. When such instances occurred, one attempt at achieving clarification was made, but then the issue was left behind with the possibility of returning to it later if confusion persisted.

**Box 3.2 continued.**

An interview schedule<sup>43</sup> is a set of questions or issues to be explored during the course of an interview. The interview schedule provided topics or subject areas within which there was a freedom to explore, probe, and ask questions that illuminated the issues. The idea was that a conversation could be instigated, but with a focus upon particular issues that were predetermined (Patton, 1990: 283). The ability to follow-up on the initial themes in the interview schedule was possible through careful probing, which on some occasions brought to light new issues that were actually beyond the scope of the original questions (Molloy and Woodfield, 2002: 23).

The probes were not written into the interview schedule. Rather, they were held in reserve and used when the need arose (Maykut and Morehouse, 2004: 95). This is because probing is a skill that comes from knowing what information is being sought in

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<sup>43</sup> See Appendix 8.

an interview, listening to what is said and what is not said, and then utilising the probes accordingly. Clarifying questions were written down in the interview schedule as examples of probes to be used when necessary, but in practice, combinations of these were used (Patton, 1990: 327).

Attention will now turn to why these particular academics were chosen to be expert witnesses. Professor Child, as can be seen in Box 3.3, has had a distinguished career in which he has acquired extensive knowledge of Chinese business issues, and he was indeed recommended as the leading academic expert in this field in the UK.<sup>44</sup> Professor Frynas was recommended as having extensive knowledge and experience that was highly appropriate for this thesis,<sup>45</sup> especially when one considers his research interests.<sup>46</sup> Both are world renowned experts; whereas Doctor Gbadamosi can be regarded as well informed with diverse experiences of the African environment,<sup>47</sup> and from personal knowledge of his African experience gained from his supervisory role to the author of this thesis, he was thus deemed a valuable interviewee. These academics all have an impressive history of producing extensive published material. Although Doctor Hale does not such a record, he was recommended as having a well informed viewpoint of the Chinese business environment<sup>48</sup> that has been gained from extensive teaching experience on the subject (for which he has won an award),<sup>49</sup> especially since he was able to offer a historical perspective which was deemed highly relevant.

### **3.8.5: Sampling key informants.**

A key informant account was deemed appropriate as the inquiry demands in-depth information that cannot be expected to be procured from representative survey respondents. A key informant was not selected to be representative of the members of an organisation, but because they are knowledgeable about the issues in question and because they are able and willing to communicate them. In addition, a key informant should be closely associated with the phenomena under investigation. A key informant

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<sup>44</sup> This recommendation was made by Doctor Hantang Qi, the external supervisor of this thesis.

<sup>45</sup> This recommendation was made by Professor Child after the interview.

<sup>46</sup> See Box 3.4.

<sup>47</sup> See Box 3.5.

<sup>48</sup> This recommendation was made by Worcester Business School staff.

<sup>49</sup> See Box 3.6.

Professor John Child has both a Masters in Economics and a PhD in Management from the University of Cambridge, who also awarded him a ScD for outstanding scholarly work in 1984. He has been awarded honorary doctorates by the Helsinki School of Economics in 1996 and by Corvinus University, Budapest in 2009. He was elected a Fellow of the Academy of Management and of the British Academy of Management in 2002. In 2004, he received the Distinguished Contribution Award from the International Association for Chinese Management Research. In 2006, he was made an Honorary Member of the European Group for Organisation Studies, recognising his contribution to the study of organisations, and in the same year, he was elected a Fellow of the British Academy.

During his distinguished academic career, which includes being Dean of the Aston Business School from 1986 to 1989 and being seconded to the position of Dean and Director of the China-European Community Management Centre in Beijing during 1989-90; he has published numerous book chapters, together with articles in internationally recognised journals such as the *Management and Organisation Review*, *Journal of International Management*, *Journal of Management Studies*, *Strategic Management Journal*, *Journal of Business Research*, *Asia Pacific Journal of Management*, *Journal of International Business Studies*, *Journal of Management and Governance*, *Organisation Science*, and *Organisation Studies* for which he was Editor-in-Chief from 1992 to 1996.

His research interests include management and economic reform in China, strategic alliances, and the evolution of new organisational forms.

**Box 3.3: Professor John Child. Source: <http://www.birmingham.ac.uk/schools/business/staff/profile.aspx?ReferenceId=4573&Name=professor-john-child> (accessed 29/02/2012).**

is chosen on the basis of their formal position within an organisation, and is considered to be uniquely qualified to answer questions relating to the inquiry, or in other words, they have informant competency. This issue of informant competence is often tied with decisions not use multiple key informants.

Professor Jędrzej George Frynas has a BA/MA in History from the University of Cambridge and a PhD in Management, Economics, and Politics from the University of St Andrews. He is the founding member of the International Research Network on Business, Development and Society which embraces scholars from Argentina, Denmark, India, South Africa, the UK, and the USA. His research interests include CSR, international business strategy, MNCs, developing economies, and the oil and gas sector. He also has an extensive list of published works, which includes journal articles in the *Journal of Business Ethics*, *Management International Review*, *Corporate Governance: An International Review*, *Third World Quarterly*, *Strategic Management Journal*, *International Affairs*, and *Socio-Economic Review*. He has also jointly published/edited three books, together with his sole publication *Beyond Corporate Social Responsibility: Oil Multinationals and Social Challenges* (2009).

**Box 3.4: Professor Jędrzej George Frynas. Source: [http://www.mdx.ac.uk/aboutus/staffdirectory/Jędrzej\\_George\\_Frynas.aspx](http://www.mdx.ac.uk/aboutus/staffdirectory/Jędrzej_George_Frynas.aspx) (accessed 29/02/2012).**

According to Kumar *et al* (1993: 1634-1635), many scholars explain that their decision not to use multiple key informants is due to a lack of qualified people with adequate knowledge. However, few researchers formally report about the unavailability of suitable, multiple key informants. The issue of informant competence, together with the fact that it often requires significant efforts to obtain just a single organisational key informant, demands that a researcher explains the reasons for not using multiple key informants. In addition, potential key informants, just like expert witnesses, may have busy schedules which dictate that they may not be willing to grant interviews, or the time that they can spare for an interview may be short.

Key informants must be knowledgeable of the issues under consideration (Walter *et al*, 2001: 369) in order for them to have informant competency. Suitable qualified key informants were contacted within Anglo American and BP, and these came from the relevant departments within these organisations in order for them

Doctor Gbola Gbadamosi has international teaching and research experience in organisational behaviour and human resource management. He has a diverse background that includes work and academic experiences from five countries, including Nigeria and Botswana, together with the UNDP. He is a member of the Chartered Management Institute, the Academy of International Business, and the International Management Development Association; together with acting as Track Chair for the World Business Congress, International Management Development Association and for the International Academy for African Business and Development, both since 2003. He has published a number of book chapters from conference proceedings together with journal articles in, for example, the Journal of Management Development, South Africa Journal of Economics and Management Studies, Journal of Global Business and Technology, Management Decision, and Journal of African Business for which he is currently a member of the editorial board. In addition, he serves as reviewer for over a dozen other scholarly journals. His research interests include unethical behaviour, organisational commitment, and management in developing countries.

**Box 3.5: Doctor Gbola Gbadamosi. Source: <http://www.worcester.ac.uk/discover/dr-gbolahan-gbadamosi.html> (accessed 29/02/2012).**

to have the adequate knowledge. Multiple key informants would not have an adequate knowledge of the issues surrounding these firms' operations.

Anglo American, the corporation considered in this thesis for comparative purposes, was contacted prior to BP, since another corporate viewpoint upon the issues was deemed relevant. Although a relevant key informant within Anglo American who could suitably report on the issues under consideration did not have time to grant a face-to-face interview, the alternative of offering an email interview was agreed to. This respondent understood and agreed that by engaging in an email interview, the right to anonymity was effectively being waived. Therefore, there was no problem with information being exchanged online.<sup>50</sup>

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<sup>50</sup> See section 3.10.1.

Doctor Andrew Hale has a first degree in Economics and Economic History and his PhD examined the role of Canadian national policies in the nineteenth century. He was involved in teacher training on the PGCE Economics course at the University of Worcester for many years. He specialises in teaching on economics courses has been awarded the Student Recognition Award for his module ‘Contemporary Global Systems’, which contains significant material on China. He is a member of the HEA Economics Network for which he is a link tutor, and he has been awarded a national ‘Outstanding Teacher Award’ by the Economics Network. His research interests involve the British economy and comparative performance.

**Box 3.6: Doctor Andrew Hale. Source: <http://www.worcester.ac.uk/discover/dr-andrew-hale.html> (accessed 29/02/2012).**

Concerning BP however, a similar response was received to that from the majority of the aid agency/NGO community. In reply to an introductory contact letter, also stating the nature of the inquiry and the information required, BP failed to grant an interview because they too are overwhelmed with interview requests and they subsequently have a policy of not granting interviews. Nevertheless, BP did point towards the secondary data that is already in the public domain, explaining that most of the questions that this research would want answering would be available via this secondary data, including company reports on their website. Acknowledging that this was a genuine attempt to help, BPs and other company reports were utilised.<sup>51</sup>

### **3.9: The third point: formulating the questions to ask.**

With the population defined, and the interviewees selected, it was then necessary to formulate the questions to ask. The two main approaches for achieving this are the structured questionnaire and the semi-structured interview schedule. Structured questionnaires are applicable to sample surveys, mainly to answer ‘what?’ questions. However, as Woodhouse (2007: 165-166) stated, structured questionnaires are inappropriate for answering ‘why?’ or ‘how?’ questions. Such questions may include, for example, why do you implement this practice? Or how do present practices

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<sup>51</sup> See section 3.4.

represent a change in relation to the past? Such questions were required by this research and can only be answered in the interviewees' own words, in an open-ended format. In addition, since the answers to such questions tend to be complex and may require further questions for clarification, as well as probing, it is difficult to frame such questions in a standardised way that a structured questionnaire would demand. Therefore, the 'why?' and 'how?' questions demanded for the nature of this inquiry were addressed using a semi-structured interview schedule, as this allowed the issues to be explored with the interviewees in a flexible way, with supplementary questions for the purpose of clarification, and in addition, new unforeseen lines of relevant inquiry arose during most interviews.

A semi-structured interview schedule uses pre-planned questions in order to initiate a conversation which can flow in various directions (Eriksson and Kovalainen, 2008: 80). A semi-structured interview schedule has a sequence of themes to be covered, together with suggested questions. At the same time however, there is an openness to changes of sequence and forms of questions to enable the interviewer to follow-up upon the answers given (Kvale, 1996: 124). Silverman (2003: 229) believes that the reliability of interview schedules can be enhanced if the interviewees understand the questions and if themes can be identified without the possibility of misinterpretation. Silverman feels that this can be achieved by pre-testing an interview schedule.

The interview schedule was thus pre-tested.<sup>52</sup> This was done by interviewing an African insider who was an existing well-informed contact, in order to refine the conversational nature of the interviews, and to receive ideas that could be formulated into further questions. In addition, although there was a pre-set list of themes and questions to be covered, as Saunders *et al* (2009: 320) suggested, these varied from interview to interview, and were even omitted from certain interviews, given the specific interviewee being encountered; namely aid agencies, NGOs, and academics at

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<sup>52</sup> See Appendix 8, followed by the interview transcripts. Appendix 9 contains the transcript of the face-to-face interview with Professor Child. Appendix 10 contains the transcript of the face-to-face interview with the CORE Coalition anonymous source. Appendix 11 contains the transcript of the face-to-face interview with Professor Frynas. Appendix 12 contains the transcript of the face-to-face interview with Doctor Gbadamosi. Appendix 13 contains the transcript of follow-up email questioning with Doctor Gbadamosi. Appendix 14 contains the transcript of the face-to-face interview with Doctor Hale. Appendix 15 contains the transcript of the email interview with Jonathan Samuel of Anglo American. Appendix 16 contains the transcript of follow-up email questioning with Jonathan Samuel.

one end of the spectrum, and Anglo American at the other end. This is known as an ‘iterative, learning-process’ design, which provides flexibility, and importantly, a semi-structured approach is suited to a situation where a researcher is trying to understand an unfamiliar social situation (Woodhouse, 2007: 166), and indeed, the African setting was relatively unfamiliar to the author at the outset of the project. In essence, the interview schedule was utilised as a guideline to stimulate a conversation, with many questions acting as cues. Nevertheless, since the interview with Anglo American was conducted via email, together with follow-up questioning via email, these questions had to be more structured.

### **3.10: An ethical outcome in interviewing: what is right and good.**

The traditional position that ethics committees take is to view ethics as being what the researcher does to subjects (Kellehear, 1993: 14). Such controversies constitute what Schwandt (1995: 133-134) describes as wrestling with problems of identity and researcher-respondent relationships. Therefore, to achieve a truly ethical outcome, it was reflected upon ‘what is right to do and good to be as’ an ‘inquirer’. The first way that this was achieved was by recognising that the author was actually performing the primary research data collection, and was consequently, securing a role of dominance. However, this powerful position could have caused problems. For example, an ethnographer may encourage the sharing of personal information with interviewees to open windows to be explored, or in other words, act as a friend. However, this requires caution to make sure that what is discussed in an interview is not too open, which may result in the researcher being cast in the role of the exploiter or betrayer of a friendly relationship based upon trust (de Laine, 2000: 115, 136). This highlights the fact that appropriate boundaries have to be maintained when conducting interviews. Overlapping roles and relationships (researcher/friend) presents a potential boundary violation. As a result, the researcher needs to understand the importance of the power differential in the professional relationship (when conducting the interview) with an interviewee with which a prior attachment had been formed. To address this dilemma, an appropriate strategy was adopted which prevented the author from misusing their power (Biaggio and Greene, 1995: 99-118). This embraced the management of anonymity and confidentiality.

Confidentiality and anonymity are often perceived as meaning the same thing.

King and Horrocks (2010: 119-120) regard this as a mistake. Whilst recognising that the two concepts are related, they feel that confidentiality and anonymity have quite distinct meanings that are critical in relation to interviews in qualitative research.

Confidentiality can be viewed as being equivalent to the principle of privacy.

Consequently, if a researcher assures confidentiality then that suggests that anything that is said in a qualitative interview would remain private and would not be repeated or reproduced. This was deemed unrealistic because the point of undertaking a qualitative interview was to report the findings. Therefore, rather than offering confidentiality, it was far more appropriate to offer anonymity to utilise the data generated in the qualitative interviews. Anonymity meant concealing the identity of the interviewee when the findings were reported, actively protecting the identity of research participants. Offering anonymity acted as an incentive to encourage the participation of interviewees. However, in some cases an interviewee may, for whatever reason, waive their right to anonymity. Nevertheless, it is still the researcher's responsibility to offer anonymity, and consent was obtained from interviewees that wished to waive their right to anonymity. Therefore, by offering anonymity to any potential interviewee, and especially to participants with whom a prior attachment had been formed, an appropriate strategy to avoid misusing power was identified.

Despite adopting a dominant professional role in an interview with an interviewee that could also be perceived as a friend, it is quite possible that the interviewee (adopting the guise of friend) revealed information that the participant would not normally divulge. Offering anonymity in this case is of great importance because the interviewee might be nervous about such information being reported, and having their identity protected may ease his or her fears.

The key point in terms of ethics is that once the interviews were transcribed, the participants were shown the transcriptions in order to seek their approval to reproduce. All of the members of the academic community waived their right to anonymity and gave their consent, whilst the person who gave expert testimony from the aid agency/NGO community expressed that he or she had revealed information that he or she would not normally divulge, and consequently, preferred to be an anonymous source. In addition, the use of low-inference descriptors<sup>53</sup> were utilised to assure the

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<sup>53</sup> See Box 3.7.

Silverman (2003: 226) believes that reliability in qualitative research can be achieved by the use of low-inference descriptors. This involves recording observations so that they are as concrete as possible. This means that accounts of what people say should not be the researchers' reconstructions of the general sense of what was said, as this would allow the researchers' personal perspectives to influence the accounts of what people say (Seale, 1999: 148).

One can satisfy the need for low-inference descriptors by:

- tape recording semi-structured interviews,
- transcribing these tapes according to the needs of reliable analysis,
- presenting lengthy extracts of the interviews in the thesis, along with the questions that provoked the answers.

**Box 3.7: Low-inference Descriptors (Silverman, 2003: 229-230).**

respondents that the information reported would be accurate, and therefore, participants were asked if they are happy with the interview being recorded. When interviews were conducted by email, the need for low-inference descriptors was easily satisfied because the participants have already done their own transcribing.

In contrast to the aid agency/NGO expert witness and academics, the key informant from Anglo American was the subject of the research. This had the potential to promote the situation, as de Laine (2000: 54) describes, of the 'researcher as prey'. Acknowledging the fact that a participant-observer, new to fieldwork, might be manipulated to serve the self-interests of a group being researched, de Laine stresses that participants may exaggerate their positions, practices, and/or prowess. Adapting this idea to this research project, it was possible that Anglo American could have used the interviews with them to promote their own corporate interests, and indeed, exaggerate their positions, practices, and/or prowess. Anglo American could have, it may be argued, used this research project to defend and/or promote themselves. This highlights the ethical responsibility that, according to Sekaran and Bougie (2010: 222), participants must have, which is that misrepresentation should be avoided. The way that this problem was addressed was by using the research question as the guiding principle

for what was reproduced. Information that was divulged that provides insights for answering the research question was reported, whilst any information that may serve the participant's own agendas was simply omitted unless it was perceived as being relevant.

### **3.10.1: Face-to-face versus online interviewing.**

Face-to-face interviews hold a number of advantages over email interviewing. Probing can be more easily conducted during face-to-face contact, and it is much easier for the interviewer and interviewee to establish a rapport because of the conversational nature of a face-to-face interview. Consequently, this personal approach was capitalised upon in the face-to-face interviews, with the result that the quality of information that was received was higher (Bryman and Bell, 2007: 673). Nevertheless, the major advantage of email interviewing is that participants may be more able to fit the interview into their time. Online interviewing significantly diminishes the difficulties of scheduling which may be problematic for the interviewer and particularly for an interviewee with a busy workload (Markham, 2004: 362). Therefore, potential respondents were given the opportunity to engage in an email interview if they were unable to fit a face-to-face interview into their schedule.

Conducting email or online interviews does run the risk of the participant dropping out of the exchange, and the interviewer is less able to have an impact upon the interview due to the fact that they are more remote. However, online contact did have the advantage of the author developing a relationship of mutual trust with respondents because of repeated interaction. Developing a relationship of this nature promoted a longer term commitment to the face-to-face interview contact. In addition, follow-up probes or questioning were made easier with online contact because of the difficulties of arranging follow-up face-to-face contact. Nevertheless, conducting email or online interviews did raise the issue of the participant's privacy. Protection of the respondent's anonymity is almost impossible in online contact due to the fact that the information concerning the origin of an online message, revealed in the header for example, is extremely hard to remove (Bryman, 2008: 642, 656). This could have had consequences once information was exchanged online, because the source of that information would not be anonymous. Therefore, when an email interview was engaged in, it was pointed-out prior to that interview that it was assumed that the respondent was

automatically waiving their right to anonymity due to the fact that the source of online contact is hard to remove.

### **3.11: The fourth point: analysis of the responses.**

The final stage of the four-point strategy was to analyse the responses. The task here was to gather together the evidence that the inquiry had generated and to summarise the findings. The findings were validated by triangulation, which is whether the information obtained from different sources led to the same conclusions (Woodhouse, 2007: 166, 171). Triangulation is a key way to provide rigour<sup>54</sup> in semi-structured interviews. This is important in case study research so that findings, when open to challenge, can be seen to show that as more and more detail comes to light, the same basic explanations remain constant, which can be regarded as a useful result. (Thomas, 2007: 322). Data triangulation involves using a variety of sources within a single study<sup>55</sup> (King and Horrocks, 2010: 164). Nevertheless, Woodhouse (2007: 170) states that the principle of triangulation reminds researchers that whilst pursuing their inquiry by talking to people, they need to cross-check the interview findings with other relevant sources, such as an earlier literature review. Whilst data was collected from a variety of sources, the interview findings were cross-checked against the literature and/or other interviewees.

#### **3.11.1: Interview analysis as bricolage.**

Many interview analyses are conducted without following one specific analytical method. Researchers are then free to change between differing techniques and approaches. This is known as interview analysis as bricolage. Such an eclectic form of generating meaning, by using a multiplicity of ad hoc methods, is common in interview analysis. Using this research as an example, the author read through the interview transcripts to get an initial overall impression, and then went back to identify key ideas that emerged, and put the parts of the interview that were significant to the inquiry into a narrative. By adopting this tactic, coding, as a key concept of content analysis, was used to reduce the interview's meaning into categories that made it possible to identify

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<sup>54</sup> Rigour means an ability to show that one has obtained enough evidence to justify one's conclusions, that the evidence has been properly obtained, and that evidence to the contrary has been sought but found to be unavailable or relatively unconvincing (Thomas, 1998: 13).

<sup>55</sup> For example, if one were to conduct a study to understand children's responses to crime, interviews would be conducted not only with the children themselves, but also with parents, youth workers, and the police (King and Horrocks, 2010: 164).

how often certain themes were addressed, or in other words, to identify patterns. In addition, another technique known as narrative analysis was utilised. Narrative analysis focuses upon the stories that are told during interviews and works out their plots and structures. Concrete episodes that are significant to the inquiry emerged from a story, and furthermore, a story told by an interviewee may be appropriate for inclusion in the narration of the thesis itself (Kvale, 2007: 105, 112, 115).

Baker (2003: 297) stated that coding after data collection should be the first step in reducing data to understandable patterns. Baker feels that the researcher would have a topic in which he or she would be interested in, and this would inform the selection of the material in the data to be analysed, or in other words, the nature of the inquiry should enable the researcher to identify relevant objects in the data. After coding, engaging in narrative analysis enables the researcher to analyse the conversation that has been conducted with an interviewee and identify what extracts can be drawn upon to suit the demands of a research project (Riessman, 2011: 312).

Qualitative research has historically been grounded in the ethnographic field. Ethnography can be defined as producing a published story that gives the reader a word picture (or narrative) of and/or about a group of people. However, qualitative research practice has expanded to include a wide range of disciplines resulting in numerous methodologies, including case studies, participant–observation, grounded study, and action-research, all of which are epistemologically different. These differences have led to attempts to standardise analytical practices, such as coding.

Coding involves breaking down the narratives told in interviews into sections, dividing the sections into bites, and then reorganising these bites according to perceived connections or themes. The problem with coding is that it assumes that narratives are too long and complex to use in their entirety, and that interview data can be controlled and best understood when it is divided up into smaller parts. Furthermore, breaking up the narratives told in interviews may not bring the qualitative researcher any closer to clarifying what the interview data tells. Information, findings, and conclusions do not magically emerge on their own from a series of data bites. They emerge from the researcher's own intuitive/cognitive perceptions upon reviewing the data.

Therefore, the author preserved the essential substance of some interview narratives when it was considered appropriate, whilst at the same time dividing other

interview data into smaller parts for the purpose of analysis (Mello, 2002: 234-235, 242).

### **3.11.2: Analytical narrative.**

Analytic narratives have been employed to explain complex phenomena in development issues. For example, Hesselbein (2007: 1) used an analytical narrative to investigate the varying nature and strength of the state in the Congo from colonial times through to the post independence years. Golooba-Mutebi (2008: 1) used an analytical narrative to examine developments in post-1994 Rwanda against the background of pre-1994 politics and society to highlight the factors that led to war and eventual genocide. In studying history, institutions, and development, Bardhan (2005: vii) produced arguments that were more discursive than in technical journal articles, providing a coherent and logical structure and an analytical narrative. Bates *et al* (2000: 697) feel that although general laws may not be derived at, analytic narratives can employ theory to gain deep insights into the complex workings of what is happening in the real world. An analytic narrative was appropriate for this inquiry, as it is making use of a theory (co-evolution) and has sought in-depth understandings from specialists who possess a unique knowledge of the phenomenon. In addition, it has largely been applied to development issues which are important in this thesis.

Krug (2007: 114) studied how new institutions and organisations (for example, firms) evolved in China, highlighting the casual factors, and believed that this called for a special methodology that Krug described as analytical narrative, whereby interviews provide raw data for understanding business evolution. With a combination of in-depth interviews and historical firm studies, a rich pool of information can be generated to facilitate an understanding of the phenomena. Krug used this approach following on from Greif (1993: 525), who believed that few studies have attempted to analyse historical institutional frameworks, even though such knowledge can facilitate an understanding of the institutional constraints that developing economies still face. Therefore, Greif presented a paper studying an economic institution using historical records, highlighting the interaction between differing economic institutions, and found

that agency relations were governed by a coalition, the Maghribi Traders Coalition,<sup>56</sup> in which implicit contractual relations were negotiated.

Bates *et al* (2000: 696) stress that in analytic narratives one is attempting to address several issues. Firstly, the researcher may be engaged in in-depth case studies, seeking to contribute to and/or to make use of theory. Secondly, a researcher may be attempting to gain an understanding from a specialist who possesses unique knowledge of a phenomenon. Thirdly, what benefits can be secured by formalising verbal accounts? Elster (1999: 2) claimed that social scientists should do no more than develop a repertoire of mechanisms. Elster believes that the failure of social science to predict and the predictions that failed can only be rectified by embracing an approach that can provide a measure of explanatory power.

### **3.11.3: Analysing narratives.**

Denzin (1998: 407) observed that qualitative researchers could construct representations of lived experiences. Nevertheless, in so doing, qualitative researchers could also fall into the trap of producing texts that represent a person's biases, beliefs, or agendas. To address this challenge, the author carefully placed the narratives and opinions of interviewees alongside the author's own perspectives. This was achieved by connecting interview data. In essence, the author became a storyteller, linking the use and reproduction of stories that were told by interviewees with the analytical discourse of the literature study so that the reproduction of interview data complimented the literature study (Mello, 2002: 241). Narrative can be defined as a sequence of ordered events that are connected in a meaningful way to make sense of the world and/or people's experiences and opinions. In contrast to a list or chronicle, a narrative actually adds up to something (Bell, 2009: 8). Determining what Bell described as 'something' was the task that the author faced. This task was achieved by engaging in a narrative analysis, where the author asked, for example:

- How did the interviewee gain experience to tell this story?
- Why was the story told?
- What significance do specific words that an interviewee uses have?

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<sup>56</sup> The Maghribi Traders were Jewish traders from the Abbasid caliphate (centred around Baghdad) who moved to North Africa in the first half of the tenth century, and later some moved elsewhere in the Mediterranean. The name Maghribi is the Muslim world's West, and they got this name upon moving to North Africa, which is the Muslim world's West (Greif, 1989: 861-862).

- What other interpretations are possible, beyond what the interviewee intended?

By asking these questions in the analytical phase of reviewing the interview data, the author drew upon and expanded the data to suit the demands of the inquiry (Riessman, 2011: 312-313).

### **3.12: Summary.**

The literature review was important because the literature study complimented the secondary data (company reports) and the primary data, and a critical review of the literature was part of the research and was not a pretext to another form of research. The case study design meant that Angola was chosen as a critical case to develop an in-depth understanding of the issues in order to answer the research question.

Nevertheless, Angola is also an extreme or unique case because of the intrinsic factors that are unique to that country, although it is more of a representative or typical case because Angola exemplifies the broader category of oil exploration and extraction in Africa. Since this thesis is concerned with procuring in-depth accounts from people who are perceived as being knowledgeable about the issues in question, a qualitative research strategy was appropriate. This is because co-evolutionary studies should use event history modelling and contextual insights to understand what sort of co-evolution is taking place, calling for qualitative insights to compliment event history descriptions.

In the semi-structured interview schedule the questions were worded so that the responses were open-ended. This open-endedness allowed the interviewee to contribute as much detailed information as they desired and allowed the interviewer to ask probing questions (Turner, 2010: 756). The four-point strategy to seek knowledgeable people's views that was adopted is normally applied to development issues, which is highly appropriate when one considers that the case was Angola and what a MNC can do to promote development there. The interviews to procure knowledgeable people's views were conducted at the final stage of the research project; and these interviews, together with relevant secondary data (company reports), were utilised to test out the research agenda that had previously been established via the literature review.

The reproduction of the primary data from interviews was coded prior to being utilised, whilst other interview extracts were put into a narrative in which the author, in effect, became a storyteller by linking the use and reproduction of stories told by interviewees with the analytical discourse of the literature study. Then the information

obtained in company reports was tested by interviewee evidence and/or the literature study in a balanced analysis.

# Part 2.

# **Chapter 4: The resource curse and business**

## **principles.**

*“In recent years ... [being] socially responsible ... [has] become an integral part of corporate governance policies” (Mallin, 2004: 79).*

### **4.1: Introduction.**

This chapter will outline the issue of the resource curse to set the stage for the CSR agenda. This is because business efforts to address the resource curse embraces a key feature of the broader development of the CSR agenda (Forstater *et al*, 2010: 14). In addition, it will establish an operational definition of CSR for the purpose of this thesis. Furthermore, before investigating the historical implementation of BP’s CSR principles and making a comparative study of Anglo American in Chapter 5, the business case for CSR will be established, before considering the general implementation of CSR principles in the Western extractive industry sector. Finally, the link between corporate governance and CSR will be outlined.

### **4.2: What the resource curse is.**

Before outlining what the resource curse actually is, it is helpful to clarify what it is not. Firstly, as some believe, the resource curse is not a claim that natural resource abundance is always bad for economic development. There are powerful historical examples of successful resource-based development.<sup>57</sup> However, there are only a few cases of successful economic development based on the export of oil.<sup>58</sup> Secondly, the resource curse does not only refer to possessing oil and/or other minerals, but rather it refers to countries that are overwhelmingly dependent upon these revenues. Finally, the resource curse is not a claim that oil and mineral exporting countries would be better off without these resources. What matters is not the inherent character of the resource itself, but how the wealth generated by these resources are shared and utilised. Simply, the resource curse refers to the inverse relationship between high natural resource dependence and economic growth rates. Recent studies have shown that developing

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<sup>57</sup> These include Australia, Canada, Chile, Norway, and the USA.

<sup>58</sup> Successful development based on the export of oil has only really occurred in the Middle East, in countries such as Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.

countries that depend on oil and mineral resources have underperformed when compared with their resource-poor counterparts. Countries dependent on exports of 'point source' natural resources, which are those extracted from a narrow geographic or economic base such as oil, are more strongly associated with low economic growth (Karl, 2005: 22-23).

Extensive empirical support for the resource curse does exist. Firstly, casual observation suggests that there is virtually no overlap in the set of countries that have large natural resource endowments, and the set of countries that have high levels of GDP. Numerous resource-rich countries have been developed for a long period of time. However, if natural resource extraction really does aid development, then why is there no evidence of positive correlations between natural resource wealth and other kinds of economic wealth? Secondly, casual observation confirms that resource-rich countries do not experience sustained high economic growth. In addition, empirical growth studies tend to confirm this casual evidence. High natural resource intensity tends to correlate with slow economic growth. Nevertheless, natural resource endowment in the USA largely explains why it surpassed the UK in the 19th century. However, the USA at this time never approached the level of natural resource intensity existing in today's resource dependant developing countries (Sachs and Warner, 2001: 828, 832-833).

#### **4.2.1: Impacts of the resource curse.**

Explanations for this poor economic performance in resource dependent developing countries vary and are debatable, but there are three principal negative effects of natural resource abundance which are outlined in Box 4.1 on the next page.

#### **4.2.2: Discussing the resource curse: the role of institutions.**

Good institutions are vital for economic development, particularly in resource-rich countries. This is because, as Sharma (2007: 33-34) states, 'institutions matter ... because they form the incentive structure of a society and provide the underlying determinants of economic performance'. Despite this fact however, the interaction between MNCs and host country institutions is not well understood, and this is unfortunate because MNCs are prominent and/or dominant actors in resource-rich economies. Therefore, what needs to be considered is whether MNC operations in resource-rich countries contribute to the resource curse or whether the activities of MNCs can reduce the institutional problems underlying this phenomenon (Wiig and

**Economic impacts.** The extractive industry sector generates large foreign exchange inflows which can lead to a country's exchange rates being over-valued. This makes it extremely difficult to export non-extractive sector goods. This is the so-called 'Dutch Disease' where extractive industry sector exports crowd-out other promising export sectors, making economic diversification difficult.

**Governance impacts.** In a country that depends upon revenues from the extractive sector, the government could neglect non-natural resource taxation and may lack incentives to develop other sectors and the quality of its institutions. Furthermore, natural resource-rich developing countries often suffer from high corruption and low education levels in comparison with non-resource rich developing countries.

**Conflict impacts.** The extractive industry sector does not provide much employment because of the capital intensive nature of the business. Consequently, extractive industries tend to be less affected by civil conflict than other sectors. In addition, oil MNCs for example, construct the necessary infrastructure for their operations and they have the ability to provide their own security. Furthermore, since the oil sector is very much an enclave economy, it has little reliance upon the local business sector. As a result of all of these factors, in natural resource-rich countries the government has little incentive to promote economic and political stability. Consequently, a resource-rich developing country suffers from a permanent threat of civil conflict, which may be further threatened by the formation of rebel and/or separatist movements who would like to gain control of the revenues of natural resource extraction.

**Box 4.1: The Three Principle Negative Effects of Natural Resource**

**Abundance (Frynas, 2009: 134-135).**

Kolstad, 2010: 178). Nevertheless, one must recognise that it would be a mistake to conclude that all resource-rich African countries suffer from the resource curse.<sup>59</sup> However, as Mehlum *et al* (2006: 1, 3) stress, the rent-seeking hypothesis states that

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<sup>59</sup> Botswana, rich in mineral resources, is indeed a notable exception.

natural resource abundance leads to a deterioration of institutional quality<sup>60</sup>, which in turn hampers development. In addition, the institutions themselves may be decisive for how natural resource abundance effects economic growth even if resource abundance has no effect upon the institutions. Therefore, natural resource abundance tests the quality of the institutional environment, and the resource curse only appears in countries with inferior institutions. Thus, the resource curse is to do with institutional weakness, and not resources *per se*.

Overdependence on oil exports is strongly associated with weak public institutions and poor governance systems. This means that the capacity to handle the challenges of oil-led development is absent, and is mainly the result of timing. If pre-existing institutions are weak, the influx of oil rents produces a rentier state, which is a state that lives from the profits of natural resources. In such states, economic influence and political power are especially concentrated within entrenched elites so that effective interaction between the state and civil society is relatively absent, and rent-seeking as a strategy for wealth creation is rampant. Such high levels of corruption contribute to the resource curse by deforming policy choices because policymakers in oil-exporting developing countries tend to favour mega-projects in which the payoffs can be more easily hidden and the collection of bribes facilitated. This further lowers growth and income levels (Karl, 2005: 25-26). In contrast, countries with institutions that promote accountability and state competence will tend to benefit from resource booms since these institutions overcome and avoid the perverse political incentives that such booms create (Robinson *et al*, 2006: 447). One could conclude that economic development is critically dependent upon institutions that restrain entrenched elites, who might otherwise dominate an economy to the detriment of its citizens (Singh and Zammit, 2006: 4). Therefore, political-economic and institutional failures are the root cause of the resource curse (Dietz *et al*, 2007: 34), and it is not the resources as such.

The error in most of the resource curse literature is the assumption that resources are fixed in quantity, and will run out over time. A country's resource base might be extended by investments in knowledge and relevant technology. Wright and Czelusta (2002: 28) stress that because numerous examples of successful country-specific resource development exist, the question arises as to whether common

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<sup>60</sup> See also footnote 10, section 1.4 for 'rent-seeking'.

underlying processes in these countries exist. This possibility in turn leads to a reconsideration of the sustainability of natural resources as a base for economic development. Furthermore, if the resource curse only affects those countries with inadequate institutions, the value of natural resources as a base for economic development might be enhanced if the institutional environment is improved. A relatively new vision of governance is that of the new institutional economics school, for which governance is the exercise of authority and control. The purpose of a governance system, according to the institutionalist school, is to regulate the exercise of authority by setting up incentive schemes and commitment mechanisms. Governments must be given external incentives to seek social welfare instead of pursuing their own objectives.

Whenever there is a poor institutional environment, there are ‘governance failures’ resulting from inappropriate incentive schemes. To change this situation, the institutional arrangements must be improved to encourage incentive schemes to promote welfare and development (Beausang, 2002: 13). A number of proposals have been put forward in recent years to correct these ‘governance failures’, and one of these proposals is the self discipline of economic actors such as MNCs (Schirm, 2004: 7-8). This indicates that they should not engage in corrupt activities such as bribery to seal the deals that they want.

Another possibility is MNCs influencing the behaviour of the government in question to correct ‘governance failures’. In a poor institutional environment, MNCs do have the opportunity to engage in institutional co-evolution, where their objective is to act as a change agent for the institutions of a certain host country. MNCs may be able to introduce institutional elements that are absent from local institutional environments (Cantwell *et al*, 2010: 577). Institutional co-evolution will be discussed,<sup>61</sup> and whilst this would tackle the first two negative effects of natural resource abundance in Box 4.1, namely economic and governance impacts, since improvements in governance would in turn promote economic development; when considering the third negative effect of having natural resources, the tendency of natural resource abundance to promote civil conflict, a further dynamic comes into play which will now be discussed.

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<sup>61</sup> See also section 2.4.

### **4.2.3: Civil conflict resolution.**

MNCs, when engaging in operations in developing countries, are embarking upon activities in environments where they are often confronted with a political climate for a potential conflict, where a conflict is actually raging, or in a post-conflict situation where peace building and reconstruction is necessary. This current situation can only be put into context by considering the background of a change in the nature of conflict since the end of the Cold War. Currently, approximately 90% of all armed conflicts are civil wars in developing countries.

Institutions in these conflict zones fail in their provision of public security because they lack the necessary resources. Consequently, the international community and civil society is increasing the pressure upon MNCs to contribute to maintaining peace and security. For example, considering the international community, the UN Global Compact's first policy dialogue was on the role of private sector MNCs in conflict zones, offering a forum for MNCs to discuss the risks and impacts of their operations in such areas, and to discuss the promotion of the Global Compact's principles in these zones. Furthermore, MNCs were given the opportunity to discuss how they could counter corruption which is a key element of many conflicts. As for the pressure from civil society, MNCs have been recently targeted by a number of campaigns and protests, including the 'Blood Diamond' campaign which considered how business fuelled conflicts in Angola, Sierra Leone, and the Democratic Republic of Congo (DRC) by engaging in diamond dealing with actors within the conflicts, and the 'Publish What You Pay' campaign which challenged MNCs to increase revenue transparency to counter the key conflict driver of corruption.

To date however, academic research in business has tended, under the banner of CSR, to focus upon 'low politics' issues like social and environmental issues. The effects of MNC operations have been addressed by peace and conflict studies. However, this has mainly been to highlight the negative impacts of corporate activities upon conflict zones. For example, research in this field considers how business can promote conflict by arms sales to maximise profits, and the financing of repressive governments or rebels. In addition, peace and conflict studies have investigated how the business sector has exploited regulatory gaps in conflict or post-conflict zones that have resulted from weak state authority (Deitelhoff and Wolf, 2010: 2-4, 6-7). Therefore, this thesis

will aim to bridge this gap between business studies and peace and conflict studies by studying the contribution MNCs can make to the promotion of peace and security as actors in global governance. Whilst there is some truth that business research, under the guise of CSR, has focused upon ‘low politics’ like social and environmental issues, this thesis will put into context the fact that by addressing such ‘low politics’ issues, MNCs can contribute to the promotion of peace and security by encouraging economic development. In addition, MNCs can reduce corruption, a key driver of many conflicts, by attempting to promote revenue transparency (i.e. not using bribes).

The nature of the oil-related conflict in the Niger Delta in Nigeria is outlined in Box 4.2 on the next page. Two root causes can be identified to explain this conflict. Firstly, there is the impact of the institutional environment, particularly in the sense that it fails to oversee a fair distribution of oil revenues. Secondly, there is the failure of the increasingly over-centralised state to deal with the social and environmental consequences of oil production at local levels (Anugwom, 2005: 98, 100-102). Therefore, the oil-related conflict in the Niger Delta highlights the fact that unless oil MNCs want their operations to become a potential target for conflict, they should promote a fair distribution of oil revenues, and address the social and environmental consequences of oil sector operations (socio-economic needs at the macro-level). In order to study this issue, Angola was chosen particularly because, as Chapter 7 will outline, it is emerging from a long civil war and the potential for conflict remains.<sup>62</sup> In addition, the location of Angola will highlight, as Frynas and Paulo (2007: 233) state, whether the positive impact of today’s oil scramble in a country such as ‘Angola will be relatively insignificant’.

### **4.3: The origins of CSR.**

CSR is a relatively recent term, but considerations with business ethics and the social impacts of business activities have been around ever since humans have engaged in enterprise. As Blowfield and Frynas (2005: 500) remind us, practices for business based on moral principles and controlled greed were pleaded for by pre-Christian thinkers in the West like Cicero in the first century BC, and also by their non-western counterparts like India’s Kautilya in the fourth century BC. Blowfield and Frynas also draw our

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<sup>62</sup> See section 7.5.

The Ogoni people in the Niger Delta, in 1990, began to protest against the operations on their land undertaken by Royal Dutch Shell. They accused Royal Dutch Shell of cooperating with the Nigerian government to deprive the Ogoni people of a fair share of the oil revenues and of their environmental resources. Subsequently, in 1993, Royal Dutch Shell was forced to cease operations in the area. Nigeria is still troubled by oil-related conflict in the Niger Delta, and the oil sector's investments in conflict zones have been the subject of much debate.

The 'resource curse' is a term that has been used to describe a situation where developing countries cannot translate natural resource wealth into economic development, which in turn fuels the duration of conflicts (Zimmer, 2010: 58, 81). Indeed, MNCs in the oil sector usually attempt to engage in operations in war zones despite the conflict (Bennett, 2002: 405). Shell began to engage in oil prospecting in Nigeria in 1938 (Onuoha, 2005: 68), and subsequently, oil revenues became increasingly important for the Nigerian economy, which prompted rent-seeking behaviour and excessive corruption.

In 1971, the Nigerian government partially nationalised upstream oil production, but production was also reorganised into joint-ventures, which enabled close alliances between the Nigerian government and oil MNCs (Frynas, 2001: 30). Since then, Nigerian governments have backed oil MNCs operations at any cost and have been willing to suppress local community protests against oil production (Ibeanu and Luckham, 2007: 57). Whilst there have been some peaceful protests, violent protest proliferates. Militant groups that have emerged engage in violent conflict, targeting the oil sector, causing oil firms to suffer temporary ceasing of operations and production losses (Omeje, 2006: 60-63).

**Box 4.2: The Oil-related Conflict in the Niger Delta.**

attention to the fact that Islam and the medieval Christian Church publicly condemned some business practices such as usury, but they rightly state that 'the modern precursors of CSR can be traced back to nineteenth-century boycotts of foodstuffs produced with slave labour, the moral vision of entrepreneurs such as Cadbury and Marks, and the

Nuremberg war crimes trials after the Second World War, which saw the directors of the German firm I. G. Farben found guilty of mass murder and using slave labour'. Therefore, CSR can be seen as the latest interpretation of what should be the societal role of business, and this has been pondered over ever since mankind has conducted business practices. What is new, according to Fabig and Boele (1999: 63), is that today's debates about CSR are 'conducted at the intersection of development, environment and human rights, and are more global in outlook than earlier' manifestations of what should be the role of business in society.

#### **4.3.1: The resource curse and CSR.**

The efforts of business to increasingly tackle the resource curse represents a key characteristic of the broader evolution of the CSR agenda. CSR in differing countries has evolved to reflect the local business cultures, issues, and drivers of change. Despite this, a common emerging pattern can be identified. The first generation of CSR is characterised by ad-hoc responses to social and environmental challenges that threatened business, whilst the second generation saw businesses taking a professionalised approach to their social and environmental impacts by setting commitments and targets, and measuring and reporting on their social and environmental performance. The more recent third generation involves businesses aligning their strategies more broadly towards sustainable development, which involves moving beyond merely controlling negative impacts to contributing to society as a whole and making positive impacts upon people and the environment.

This evolution of the CSR agenda will be assessed against publications on BP's activities (including their CSR/sustainability reports, together with a comparison against the reports of other selected Western firms) in the next chapter. During this evolution, it has become increasingly expected by governments and local communities that business should provide beneficial impacts in terms of addressing the resource curse to contribute to economic development (Forstater *et al*, 2010: 14).

#### **4.3.2: Defining CSR.**

Despite the fact that a common emerging pattern can be identified in the broad evolution of the CSR agenda, and although the CSR construct describes the relationship between firms and society as a whole, a precise definition of CSR has proved to be elusive because the beliefs and attitudes regarding this relationship tend to differ (Snider

*et al*, 2003: 175). According to Amaeshi and Adi (2007: 4-5) there are as many definitions of CSR as there are writers, leaving the construct fuzzy and open to conflicting interpretations. All these render CSR a multi-purpose and contested construct. Despite this surge in interpretations, Carroll's (1991: 42) suggestion that 'the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen' is very popular. At the heart of this suggestion is McWilliams and Siegel's (2001: 117) explanation of CSR as 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law'.

Carroll (1979: 498-499) originally proposed a four-part definition of CSR that was embedded in a conceptual model of corporate social performance (CSP). Together with differentiating between four types of corporate social responsibilities: economic, legal, ethical, and discretionary; Carroll also argued that firms wishing to effectively engage in CSP needed to have a basic definition of CSR, an understanding of the issues for which a social responsibility existed, and specification of the philosophy of responsiveness to the issues. Wood (1991: 691) revisited the CSP model and introduced important refinements by going beyond an identification of the different types of responsibilities to framing the issues relating to the CSR principles motivating responsible behaviour at institutional, organisational, and individual levels. In addition, Wood identified the processes of social responsiveness: environmental assessment, stakeholder management, and issues management.

Despite the publication of these two, what could have been viewed by now, seminal articles in the earlier CSR agenda; the debate has deteriorated into a lingering confusion as to what CSR precisely entails, and two major camps have emerged. The first camp believes that the firm is a legal construct that has only the two responsibilities bestowed upon it by the law. This involves making profits for its owners and obeying legislation. The second camp advocates that firms act intentionally via the deliberate actions of their members, and consequently, must bear the duties and obligations of any good person or citizen, but on an organisational scale. This second camp translates into a broader conception of CSR that entails a wider range of economic, legal, ethical, moral, and philanthropic responsibilities (Jamali and Mirshak, 2007: 245); and is therefore more in alignment with Carroll's original conception.

A definition is also dependent upon the type of organisation that is attempting to define CSR. As a result, there are numerous organisational definitions of CSR. Amongst governmental organisations, the UK government defines it as ‘the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society,’ whilst the Chinese Ministry of Commerce defines it as ‘a concrete action taken by Chinese companies to implement the political aspiration of the new Communist Party collective leadership – putting people first to create a harmonious society.’ Amongst corporations, Gap states that ‘being socially responsible means striving to incorporate our values and ethics into everything we do – from how we run our business, to how we impact upon the communities where we live and work’ (Crane *et al*, 2008a: 6), and whilst BP itself does not appear to offer the same kind of definition of CSR (Cox, 2008: 34), BP (2006c) defines sustainability ‘as the capacity to endure as a group, by renewing assets, creating and delivering better products and services that meet the evolving needs of society, attracting successive generations of employees, contributing to a sustainable environment and retaining the trust and support of our customers, shareholders and the communities in which we operate’. For Christian Aid, a NGO, CSR is defined as ‘an entirely voluntary, corporate-led initiative to promote self-regulation as a substitute for regulation at either national or international level,’ whilst the Confederation of British Industry, a business association, defines it as ‘the acknowledgement by companies that they should be accountable not only for their financial performance, but for the impact of their activities on society and/or the environment’ (Crane *et al*, 2008a: 6-7). Therefore, when considering the numerous definitions and concepts surrounding CSR, it is difficult to procure a single definition of CSR for the purpose of conducting an investigation of its implementation.

Nevertheless, as Wheeler *et al* (2002: 298) state, CSR terminology is widely employed by actors in the extractive industry sector who are members of the World Business Council on Sustainable Development (WBCSD), another business association; and indeed, BP is a member of the WBCSD. The WBCSD offers numerous definitions of CSR. However, their main definition states that CSR requires a ‘continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the

local community and society at large'. Taking this as a preliminary definition, this proposes three areas for an investigation upon their implementation.

Firstly, there is ethical behaviour, which for BP (2010b: 39) relates to revenue transparency as 'a mechanism for disclosing information about revenue flows from oil and gas activities in resource-rich countries.' In effect, BP believes that nobody with connections to them, nor the company itself, should 'engage in bribery or corruption in any form'. This question of transparency is a key issue of CSR that has been assessed in Part 3 of this thesis. Secondly, for improving the quality of life for society at large, CSR focuses upon negative externalities, to persuade firms to take into account the social and environmental side effects of their operations (Valor, 2005: 194). Therefore, the inclusion of social and environmental issues is an important consideration in this thesis, although how BP has treated its employees and dependents has not been neglected. This has been considered in a historical evolution of BP in the next Chapter, as well as in Part 3. Thirdly, contributing to economic development will be assessed at some length in Part 3. Therefore, a working definition of CSR for the purpose of this thesis has been developed as:

*'The voluntary requirement for business to behave ethically, and to address negative externalities so that local communities can sustain their livelihoods, in order to contribute to economic development'.*

Before moving on to investigate the implementation of this working definition of CSR, the business case for CSR will be established, and then a general exploration of the implementation of CSR in the extractive industry sector in the West will be considered.

#### **4.4: Making the business case for CSR.**

Linnik and Skadegaard-Thorsen (2008: 107) state that 'CSR includes a set of non-negotiable standards relating to how business treats its stakeholders and the environment; standards that all companies have the obligation to observe'. For many, there is only one ideal model in corporate governance, and that is either shareholding or stakeholding. The shareholding perspectives exclusively emphasise the priority of shareholders' interest over other stakeholders. In contrast, the stakeholding perspectives try to legitimise wider stakeholders' interests by rejecting the priority of shareholding value. Both sides, shareholding or stakeholding, claim that their own model is the ideal (or at least relatively perfect), and therefore their model is the only objective truth in the

world, believing the other to be simply false (Letza and Sun, 2002: 53-54).

There are conflicting views about the purpose of the firm and, as a result, the ways in which firm success should be measured (Moir *et al*, 2007: 388). In traditional neo-classical economics the objective financial function of the firm is profit maximisation. Simply, this means that managers must create as much wealth as possible for shareholders. To achieve this objective, any financing or investment decision is acceptable, if it is expected to maximise shareholder value (Pike and Neale, 2006: 10).

The alternative view is that we should widen the purpose of the firm, and it should be considered as a social institution that needs to create value for all stakeholders. Moir *et al* (2007: 388) believe that indeed the firm needs to create and sustain value, but not for just its shareholders, but for all stakeholders. Value needs to be created and sustained for both shareholders and for wider society if the firm is to continue to thrive. A firm that cannot raise capital and provide adequate returns on that capital would not survive as the capital would go elsewhere. Equally however, if a firm does not pay attention to satisfying its multiple stakeholders, be they dominant stakeholders in the short-term (customers and employees) or, in the long-run, wider society (global communities, NGOs and governments), the firm will cease to be legitimate. If firms cease to be legitimate and their reputation and image is tainted as a consequence, it would be bad for business because investor confidence would be undermined. Therefore, the problem for managers is how to make the business case for CSR, meaning paying wider attention to the needs of multiple stakeholders whilst delivering shareholder value at the same time.

The business case can be made by seeking evidence linking CSR provision with shareholder value delivery. King (2001: 99) conducted a study with this in mind, and found that firms can indeed deliver multiple stakeholder objectives and provide shareholder value. King found, over a five year period, that the aggregate performance of firms delivering good corporate responsibility was superior to their peers who performed poorly when it came to CSR provision. Shareholder value was higher for firms who paid wider attention to the needs of multiple stakeholders. In addition, Fussler (2004: 282) studied the link between signatories to the United Nations Global Compact and profitability.

The coming of the 21<sup>st</sup> century has seen an explosion of CSR standards from the global institutional environment to influence behaviour at the micro-level. These include supra-national and intergovernmental initiatives from the UN, the Organisation for Economic Co-operation and Development (OECD), the World Bank, together with G8 and G20 initiatives. In addition, there are multi-stakeholder initiatives such as the Extractive Industries Transparency Initiative (EITI),<sup>63</sup> and principle-based initiatives such as the Equator Principles.<sup>64</sup> However, perhaps the most widely embraced initiative is the UN Global Compact, and developing country firms, important for this thesis with the consideration that Chinese oil firms are under investigation, are actively encouraged to join (Horrigan, 2010: 9, 15, 55). According to UNCTAD (2006b: 235) the Global Compact asks firms to ‘embrace, support and enact, within their sphere of influence, a set of core values’, covering the areas of labour standards, the environment, anti-corruption, and human rights.<sup>65</sup> Fessler (2004: 282) found that as a group, the Global Compact signatories created greater shareholder value when compared with non-signatories. Therefore, it is reasonable to assume that when multiple stakeholders put forward the goals of CSR, managers are inspired to adhere to principles that are higher than just profit maximisation, and as a result business excellence is enhanced.

Amongst multiple stakeholders, transnational networks are key players. Amongst the central network concepts that have been developed in relation to global environmental governance, for example, are epistemic communities<sup>66</sup> and global civil society<sup>67</sup> (Betsill and Bulkeley, 2006: 147). Once all stakeholders have been identified, one way to gain a key insight into whether managers regard social and environmental issues as important is to ask them to prioritise all the stakeholders involved in a business

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<sup>63</sup> See Section 8.5.

<sup>64</sup> The Equator Principles are a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions (Equator Principles Association, 2011).

<sup>65</sup> See Appendix 1 for the Global Compact’s principles.

<sup>66</sup> Epistemic communities are networks of experts who share a mutual understanding of the scientific and business/political nature of a certain problem. They are seen as influential because of their authoritative claims to knowledge, and an ability to create a scientific consensus on the issues. Decision-makers can refer to these under conditions of uncertainty (Betsill and Bulkeley, 2006: 147).

<sup>67</sup> Global civil society embraces the multiplicity of actors and institutions that influence the ways in which global environmental issues are addressed. By embracing civil society, there can be a pursuit of goals that function outside normal jurisdictions (Betsill and Bulkeley, 2006: 148).

activity (Moir *et al*, 2007: 393). Mitchell *et al* (1997: 862-863) proposed the criteria of stakeholder legitimacy, based upon moral interests in the harms and benefits of a firm's actions, stakeholder power, based upon the stakeholder's power to influence firm behaviour, and to evaluate these two attributes in the light of the demands of urgency and as a method of prioritisation. Therefore, if a manager prioritises NGOs, for example, then social and environmental issues would have to be deemed as important to that manager.

Nevertheless, there are possibly four important drivers for a firm, such as BP, to embark upon transferring their CSR principles, and these are:

- 1) Gaining a competitive advantage. Firms can be motivated to seek a competitive advantage over rival firms who do not address social and environmental issues. Numerous oil firms who present themselves as socially responsive have been favoured by the governments of oil-producing developing countries. However, it is possible that political motives still play a significant role in these oil firms being selected.
- 2) To maintain a licence to operate. Addressing social and environmental issues can be seen as a way of seeking support from the local community. In Nigeria, where civil conflict continually interferes with oil MNC operations, engaging in local community development programmes is, in essence, a way of buying local community support.
- 3) Improving reputation. Many CSR initiatives have been implemented in an attempt to improve a firm's image in the light of bad publicity. Indeed, CSR is often implemented as a good public relations exercise.
- 4) To maintain employee morale. Implementing CSR principles is often driven by a desire for firms to show to their own employees that they are 'a positive force for development'. Criticism of oil MNCs can have a demoralising effect on their employees, especially when employees in developing countries can see that oil revenues do not benefit society as a whole.

These four drivers for transferring CSR principles represent the business case for CSR (Frynas, 2009: 116-121). It will be seen in Part 3 whether firms adhere to these drivers.

#### **4.5: CSR: from Friedman to the triple bottom line for the extractive industry in the West.**

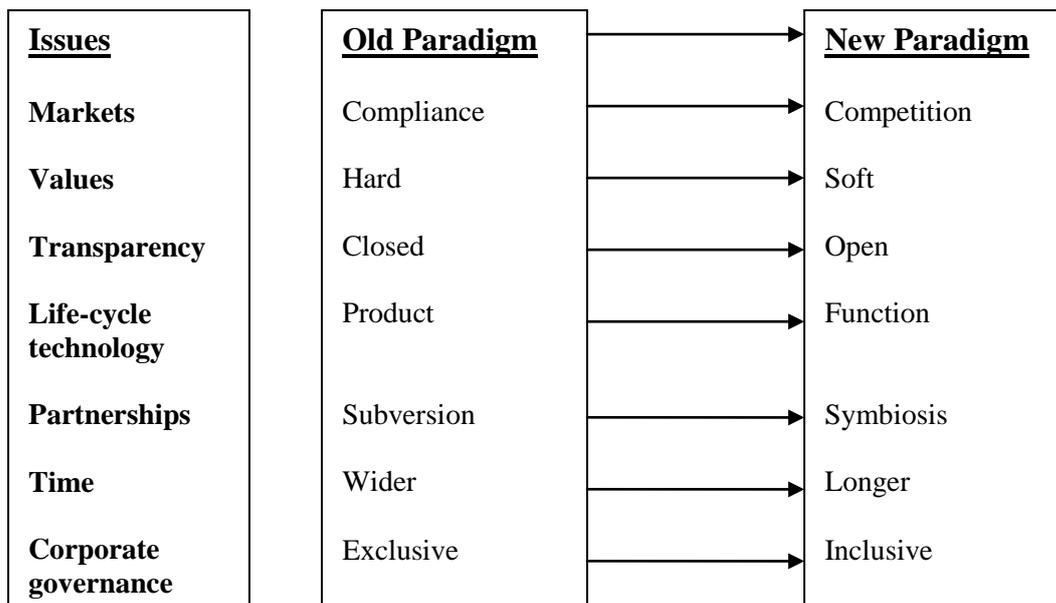
In the rhetoric of Western firms and their stakeholders in recent years, the view that they should not only take into account the simple (profit) bottom line of their business operations has become very fashionable in some quarters. This economic bottom line should be considered as part of a three-dimensional perspective, the triple bottom line (Steger *et al*, 2007: 162). The term triple bottom line was first coined by John Elkington in 1994. The triple bottom line agenda requires firms to include the social and environmental implications of doing business, and not to just focus on the economic bottom line. It depends on seven closely linked revolutions to complete a transition to sustainable capitalism (Elkington, 2004: 1, 3). These seven sustainability revolutions are outlined in Figure 4.1 on the next page.

Steger *et al* (2007: 162-163) believe that in reality however, the economic bottom line still dominates corporate decision making. This does not mean though, that firms completely ignore the social and environmental dimensions of their business. There are many laws that set standards for social and environmental behaviour in OECD countries. Economically speaking, these laws intend to internalise externalities. Externalities are the positive or negative effects of economic activity that are not reflected in market prices, such as income multiplier effects in local communities or carbon emissions. However, not all externalities are internalised, and therefore, stakeholders put firms under additional pressure to internalise more of the social and environmental externalities they create. This creates a dilemma for firms in that they must ensure their own economic survival whilst dealing with the social and environmental issues that stakeholders bring to their attention. The triple bottom line expectation is that equal weighting should be given to economic, social and environmental issues. This poses the question, how can firms live up to the expectations of their stakeholders? This has been assessed for BP in Part 3.<sup>68</sup>

Several theoretical frameworks on the relationship between corporate economic performance and corporate social and environmental performance have emerged.

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<sup>68</sup> See section 8.4.



**Figure 4.1: The Seven Sustainability Revolutions (adapted from Elkington, 2004: 3).**

Perhaps the most influential over the years is that of Milton Friedman in 1962. His trade-off hypothesis states that firms have only one social responsibility, and that is to increase profits. This is known as the Friedman doctrine.<sup>69</sup> Any increase in social or environmental performance would lead to unnecessary costs which reduces profitability (Chen and Bouvain, 2008: 269). In contrast, the social impact hypothesis of Cornell and Shapiro (1987: 5, 9, 13) stresses the importance of social and environmental performance. Overall, according to Cornell and Shapiro, improvements in social and environmental performance increases economic performance. Other stakeholders, aside from investors and management, play an important role in corporate policy. Therefore, social and environmental stakeholders make up a vital link between corporate strategy and corporate finance because improvements in social and environmental performance prevent market fears for investors. Cornell and Shapiro believe that the potential benefits outweigh the costs because firms can expect to distinguish themselves, not just to stakeholders but also to potential investors, by acknowledging stakeholder claims.

<sup>69</sup> The Friedman doctrine states that the sole role of business is to create profit for shareholders (Chen and Bouvain, 2008: 269).

Social and environmental concerns are embraced in the context of CSR (Werhane, 2007: 460). In addition, McWilliams and Siegel (2001: 125-126) produced the supply and demand theory of the firm to find precisely how much a firm should spend on CSR. They found that there is a level of CSR investment that both maximises profit and satisfies stakeholder demand for CSR. This level of investment can be determined via cost-benefit analysis. They indicate that although firms that provide CSR may have higher costs than firms that do not provide CSR, they will still each have the same rate of profit. This is because CSR attributes are like any other attributes that a firm offers. Given the demand for CSR attributes and the cost of providing CSR attributes, the firm can choose the level of CSR attributes that maximises firm performance. This theory linking CSR to market forces shows that there is a link between economic performance and the demand for social or environmental performance.

Steger *et al* (2007: 166-167) found that companies cannot manage downstream and upstream issues without involving other stakeholders, although they are often held fully accountable for them by the customer or other primary stakeholders. For example, whilst the most important environmental impacts in an industry can occur upstream of their operations, the consumer expects the industry to manage these problems as part of its brand integrity. Firm visibility is a strong moderating factor because a well-recognised brand would be strongly affected. However, some firms do recognise that embracing social and environmental issues are important. Several firms use social and environmental strategies as a tool to build their brand image. For many firms image is critical (Heal, 2008: 229-230), but even if a firm displaying its social and environmental responsibility is just clever marketing, the firm has to be responsible to make valid claims.

Therefore, does the extractive industry sector, important for this thesis, in the West exhibit corporate responsibility? Managers' perceptions of social and environmental issues are industry-specific. Overall, environmental issues are considered more significant than social ones in many industries. This can perhaps be attributed to a stronger tradition of environmental management in most industries. Unsurprisingly, extractive industries consider environmental issues to be highly important. In addition, compared to other industries, a high significance is given to social issues by extractive

industry firms like BP. This is mainly due to operating in developing countries, which are often associated with human rights and corruption issues, and local income effects.

In all industries, environmental and social issue significance is determined by stakeholder demands to resolve the underlying social and environmental problems (i.e. to internalise externalities). While there are industry differences in the perception of the roles of both stakeholders and industry in contributing to corporate sustainability, a clear pattern emerges that covers all industries. Differing stakeholders play different (more or less proactive) roles. Firstly, consumers are considered the least proactive. This reflects consumer ignorance about corporate sustainability and governance issues, and perhaps an unwillingness to pay for rectifying such issues. Secondly, government at the institutional environment level is only slightly more proactive. Most industries find it easy to keep up with any legal regulations. In addition, industries are often only bound by soft laws, such as the OECD Principles of Corporate Governance<sup>70</sup> which they only *should* adhere to. Therefore, if citizens and activists insist on more regulation, it is perhaps because industries are only bound by soft laws. Finally, NGOs are without doubt the most proactive stakeholder, and their role is to increase incentives for firms to internalise externalities. NGOs drive the CSR agenda by political lobbying for changes in regulations, and actions aimed at firms or even entire industries to trigger changes in corporate policy and behaviour. NGO action is most effective if they target highly visible firms and brands. However, NGO influence is limited, and is often contingent upon ad hoc reactions from consumers. Generally, managers are still sceptical of, and sometimes cynical about NGOs and their potential to undermine reputation and image. The question that arises therefore, is are firms' attempts to deal with social and environmental issues mainly based upon incremental improvements aimed to appease NGOs at little or no extra cost? (Steger *et al*, 2007: 167, 169, 171, 174).

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<sup>70</sup> The main elements of the OECD Principles are that a corporate governance framework should 1) protect shareholders' rights, 2) ensure equitable treatment of shareholders and shareholders should have the opportunity to obtain effective redress for violation of their rights, 3) recognise the rights of stakeholders, and encourage cooperation between firms and stakeholders in creating wealth, jobs, and financially sustainable enterprises, 4) ensure accurate disclosure of a firm's financial situation, performance, ownership, and governance, and 5) ensure effective monitoring of managers by boards, and the accountability of the board to the firm and shareholders (OECD, 2000: 4).

#### **4.6: Introducing corporate governance.**

Shleifer and Vishny (1997: 737) stated that ‘corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment’. A much broader definition of corporate governance to the one provided by Shleifer and Vishny is offered by the OECD (1999: 2), who describe it as ‘a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined’. Investment decisions are linked to corporate governance because investors prefer to invest in properly governed corporations and tend to avoid making investments in obscure environments. Investor confidence generated by sound corporate governance arrangements promotes efficient capital allocation across firms (Walkner, 2004: 2).

The essence of the corporate governance issue is an aspect of the principal/agent problem. This refers to the need for appropriate checks and balances between the principal and the agent. Investors play the role of principal, while managers play the role of agent (Charreaux, 2008: 21-22). The principal/agent problem can be managed by focusing on internal firm structures and external safeguards (Walkner, 2004: 2). According to Denis and McConnell (2002: 2), the corporate governance mechanisms of firms can be broadly characterised as being either internal or external to the firm. The internal mechanisms of primary interest are the board of directors and the equity ownership structure of the firm.<sup>71</sup> The primary external mechanisms are the legal system<sup>72</sup> and the market for corporate control.<sup>73</sup>

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<sup>71</sup> The US corporation was characterised by Berle and Means (1933, cited in Singh and Zammit, 2006: 8) as having widely dispersed share-ownership and separation of ownership from control, a situation that continues today. The board of directors is specifically charged with representing the interests of shareholders, and in theory, is an effective corporate governance mechanism (Denis and McConnell, 2002: 2). However, Cadbury and Millstein (2005: 4) assert that boards can be weak because they may include some of the very insiders who are to be monitored. In addition, the nature of the selection process for boards is such that management usually has a strong hand in determining who the other members are.

<sup>72</sup> See Box 4.3.

<sup>73</sup> When the internal control mechanisms fail, resulting in the gap between actual and potential shareholder value being deemed too wide, there is an incentive for outside actors to seek control of the firm. Often, the mere threat of a change in control can provide managers with incentives to keep firm share value high (Denis and McConnell, 2002: 4).

Jensen (1993: 24) acknowledges the legal system as an external corporate governance mechanism, but characterises it as being too blunt an instrument to deal effectively with principal/agent problems. However, LaPorta *et al* (1998: 1114-1116, 1151-1152) hypothesise that the legal system is important for determining how corporate governance mechanisms evolve. LaPorta *et al* argue that the extent to which laws protect investor rights, and the extent to which such laws are enforced, are the most basic determinants of how corporate finance and corporate governance evolve. Countries with a common-law tradition, which is English in origin, give investors stronger legal protection than countries with a civil-law tradition, which is Roman in origin. However, if legal protection for investors is weak, then substitute mechanisms can evolve. In the USA, with a common-law tradition, the Sarbanes-Oxley Act (see below) was signed into law by President George W. Bush on 30<sup>th</sup> July 2002. Many observers regard this as the most important piece of legislation to affect corporate governance in the USA since the early 1930s and the then passing of US securities laws. This Act enhances corporate governance by requiring that the services provided by firm auditors should be pre-approved by the firm's audit committee (Brown, 2005: 143, 156). **NB.** The Sarbanes-Oxley Act, named after Senator Sarbanes and Representative Oxley, introduced major changes to the regulation of corporate governance and financial practice. It set a number of non-negotiable deadlines for compliance, and an over-arching public company accounting board was also established by the act (Soxlaw, 2003).

**Box 4.3: The Legal System.**

**4.7: CSR converging with corporate governance.**

In international business research, as Clarke (2007: 267) believes, 'bridging the great divide between corporate governance and corporate social and environmental responsibility is the next great challenge'. Although these two concepts have different origins, there has been some progress in bridging this divide to a point where they are

converging. Indeed, Reed (2004: 287) considered social responsibility to be a broad category of corporate governance, and Albareda (2008: 434) believes that CSR can be seen as a new governance arena, being as it is a set of guidelines to manage the social and environmental consequences of economic activities. Nevertheless, as Amaeshi and Adi (2007: 11) state, it is far easier to identify with corporate governance as a business expression than CSR. Corporate governance is driven by corporate interests and to a large extent is a morally neutral concept. In this regard, they argue that CSR could find an easier means of expression and legitimacy through the corporate governance umbrella in order for its contents to be preserved.

Over thirty years ago, Jones (1980: 59, 65) was the first to articulate a link between corporate governance and CSR, describing CSR as a method for corporate governance, or in other words, a form of self-control. In particular, Jones stressed that ‘CSR ought not to be seen as a set of outcomes, but as a process’. The literature then goes rather silent on the issue, until Sacconi (2006: 262) described CSR as a model of extended corporate governance in which the firm has responsibilities ranging from fulfilling fiduciary duties towards stockholders to fulfilling more analogous fiduciary duties towards all other stakeholders.

Good corporate governance in the post-Enron era<sup>74</sup> has often meant that corporate morals and ethical behaviour find their expression in accountability mechanisms, transparency, and disclosure. Consequently, there has been a shift from the agency focus associated with ‘old school’ corporate governance to a ‘new school’ focus on ethics and accountability. Subsequently, this new view acknowledges that corporate governance is no longer just concerned with maximising shareholder value but rather about the relationships amongst the many players involved. The principal players are the shareholders, management, and the board of directors; whilst other players constitute employees, suppliers, customers, lenders, regulators, the environment, and the wider community; all of whom are embraced by being considered as the stakeholders.

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<sup>74</sup> Enron, the US leader in world energy trading at the time, collapsed in 2001 with massive undisclosed debts resulting from corporate fraud. Essentially, the fall of Enron had many elements of what is known as a ‘Ponzi’ scheme, an accounting swindle which involves ‘borrowing from Peter to pay Paul’. In order to maintain reported earnings growth, Enron utilised aggressive accounting policies and practices to accelerate profits and hide debt (Hamilton and Micklethwait, 2006: 33-34).

Nevertheless, whilst corporate governance has evolved to embrace the ‘new school’ focus, CSR has also undergone a conceptual transformation.

As it emerged in the political and academic landscape several decades ago, CSR first and foremost criticised the corporate shareholder primacy ethos. The CSR movement drew upon critiques by the law and economics school to challenge the economic rationales behind shareholder centralism, and proposed that business should go beyond aiming at higher stock prices and also attempt to internalise social and environmental externalities. Whilst these conceptual challenges can still be regarded as the essence of CSR today, the movement has evolved from advocating CSR’s voluntary nature with its focus on self-regulation, to campaigning for far more comprehensive and mandatory legislation.<sup>75</sup> Moreover, the business reaction to the CSR agenda was to adopt ethical guidelines, consider stakeholder concerns, and internalise externalities. In addition, business also declared that a commitment to issues such as human rights, employees’ rights, and protecting the environment could go hand-in-hand with profit-maximisation goals, or in other words, the triple bottom line. Consequently, the CSR movement has gradually been absorbed into the corporate governance ethos, and as a result, one could argue that as corporate governance becomes increasingly driven by ethical norms and the need for accountability, a potential convergence between corporate governance and CSR surfaces. Where there used to be two separate entities, with corporate governance being concerning with ‘hard core’ corporate decision-making and CSR with ‘soft core’ society-friendly issues, the two are now converging into a hybrid conception of what should be corporate practice (Gill, 2008: 458-463). This corporate governance/CSR hybrid conception embraces the essence of this thesis.

In the light of the discussion presented above, there is a distinct overlap between corporate governance and CSR. Good corporate governance entails responsibility and due regard to the concerns of all stakeholders. Therefore, questions arise as to whether corporate governance and CSR should be seen as independent or interdependent issues, and are they mutually exclusive or mutually coexistent and increasingly convergent functions? (Jamali *et al*, 2008: 446-447).

Elkington (2006a: 522) hints at a potential convergence by claiming that ‘it is timely to review the increasingly complex cross-connects between the rapidly mutating

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<sup>75</sup> See Appendix 2 on legislation.

governance agenda and the burgeoning world of CSR, social entrepreneurship and sustainable development'. Indeed, as Mullerat (2010: 50) suggests, 'CSR, business ethics, and corporate governance should be integrated as a single domain'. Corporate governance and CSR are linked, but as Benn and Bolton (2011: 107-109) rightly stress, there has been little research that links these two concepts, despite the fact that CSR can be seen as 'an extension to the model of corporate governance'. Instead, as Jamali *et al* (2008: 444) indicate, many researchers have focused upon corporate governance and CSR independently, and have treated the two entities as being unrelated accountability models. For many, corporate governance and CSR have guidelines, reporting standards, and oversight mechanisms that have evolved separately. However, Jamali *et al* feel that governance and CSR are intricately connected, and previous research has therefore fallen short in capturing the nature of this relationship.

#### **4.7.1: CSR: the principles of corporate governance.**

Perhaps one way that links corporate governance and CSR is to consider CSR as a part of the essential corporate governance principles. Aguilera *et al* (2006: 151) state that compared to the USA, companies and institutional investors in the UK pay more attention to issues of long-term CSR issues. There are several possible explanations for this, but Solomon *et al* (2004: 557) identify three specific ones; namely a general increase in concerns about ethics in British society, heightened awareness of risk and risk management, and the growth in media exposure concerning CSR.

Nevertheless, to explain why institutional investors care about companies' CSR performance, one must take into account the fact that some institutional investors believe social, environmental, and corporate governance issues to be financially material, either positively or negatively. Such investors care about companies' CSR profiles because of the competitive advantage that may accrue to the companies from handling these issues well and the competitive disadvantage that may result from mismanaging them. Therefore, as investors, they care about the competitive advantage that they may derive from investing in companies that perform well on these measures. Furthermore, instrumentally motivated investors consider the manner in which a company manages its social, environmental, and ethical challenges to be a good indicator of the quality of management generally and consequently, this is a good

indicator of the corporate governance arrangements within the firm as a whole (Aguilera *et al*, 2006: 153-155).

Because of these reasons companies cannot ignore the pressure for good corporate governance and CSR performance from shareholders, potential investors and other market actors. Corporate governance matters significantly to a company's performance, market value and credibility, and therefore every company has to apply corporate governance principles.<sup>76</sup> However, firms must know what the corporate governance principles are and how they will improve their corporate strategy to apply these principles. In practice there are four principles of good corporate governance, which are:

- transparency,
- accountability,
- responsibility,
- and fairness.

All these principles are associated with the firm's CSR (Aras and Crowther, 2008: 440-441). This demonstrates the clear link between corporate governance and CSR since CSR embraces the essential principles of corporate governance.

Nevertheless, according to Aras and Crowther (2008: 441-442), the definition and measurement of good corporate governance is still subject to much debate. Good corporate governance should address such points as keeping a balance between economic, environmental, and social benefit (environmental and social benefit should embrace the principles of sustainable development), and creating sustainable value; but the problem is that firms clearly do not understand this relationship and often confuse sustainability with continued existence, and BP provides a good illustration of this confusion. As BP state:

“That is why we care about the sustainability of our activities and why, throughout the company, we work to ensure that the things we do and the way we do them are genuinely sustainable” (BP, 2006: 4).

At first glance this suggests that they care about environmental and social issues to embrace the principles of sustainable development. However, later on there is a statement saying:

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<sup>76</sup> Indeed, according to Warhurst (2011: 68), the responsible corporation should systematically address business accountability by utilising tools such as corporate governance principles.

“BP has now sustained itself as a company for almost 100 years through periods of dramatic economic, social, political, technological and commercial change” (BP, 2006: 5).

This suggests that BP believes that sustainability means continued existence, and Aras and Crowther (2008: 442-443) found in their research that of the firms in the FTSE100, the majority do confuse this relationship between sustainability and continued existence, or do not think that it is important. 30% of the firms consider that their corporate governance is adequate because it complies with the UK’s Combined Code, whilst the other 70% are making efforts to comply. Therefore, the FTSE100 firms are doing no more than meeting their regulatory obligations. Nevertheless, Aras and Crowther found that 27% of the FTSE100 firms recognise that there is a clear link between corporate governance and CSR and are making efforts to link the two concepts. Although they do not state which firms recognise this link, they do draw attention to the fact that the Royal Dutch/Shell Group have an integrated vision of sustainability built on economic progress, social development, and environmental improvement; and that Shell is committed to sustainable development being incorporated into their corporate activities to meet the requirements of the Agenda 21 framework<sup>77</sup> as outlined at the 1992 Rio Earth Summit.

However, a relevant question for this thesis is what should be seen as the essential principles of corporate governance in the African setting? South Africa’s institutional environment has produced the King Report (2002), which identified seven essential principles of corporate governance, and these are:

1. Discipline,
2. Transparency,
3. Independence,
4. Accountability,
5. Responsibility,
6. Fairness,
7. Social responsibility.

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<sup>77</sup> Agenda 21 contains the bold goal to reverse the environmental damage that mankind has inflicted upon the world, and ‘to promote environmentally sound and sustainable development in all countries on Earth’. Agenda 21 calls for behavioural changes at all levels of society, and ‘includes concrete measures and incentives to reduce the environmental impact of industrialised nations, revitalise development in developing nations, eliminate poverty worldwide, and stabilise the level of human population’ (Sitarz, 1994: 6).

The later King Report (2009) facilitated a greater understanding of this, by highlighting that good governance is about leadership, and that effective leadership is based on moral duties that are characterised by responsibility, accountability, fairness, and transparency. In addition, responsible leaders should direct company operations so that there can be sustainable economic, social, and environmental performance (du Plessis *et al*, 2011: 11-12).

Although South Africa is not the focus of this thesis, the King Report does impressively articulate the essential principles of corporate governance, perhaps even more so than the OECD Principles, and in an African setting. Indeed, Fremond and Capaul (2002: 7) regard South Africa's King Report as more prescriptive than the OECD Principles. The two principles of transparency and social responsibility will be considered at some length in Part 3.

#### **4.8: Summary.**

The resource curse refers to the situation where resource-rich countries suffer from institutional weaknesses, which in turn leads to a poor record of economic development. The principle negative effects of natural resource abundance are the so-called 'Dutch Disease' where extractive industry sector exports crowd-out other promising export sectors, governance impacts (where governments depend upon revenues from the extractive industry sector and as a result neglects non-natural resource taxation, lacks incentives to develop other sectors and the quality of its institutions, engages in corruption, and lacks incentives to improve education levels), and conflict impacts (due to the capital intensive nature of the business meaning that it tends to be less affected by civil conflict, major corporations providing their own security, and the fact that governments lack incentives to promote economic and political stability).

Good institutions of governance are vital for economic development generally and especially in resource rich countries, and therefore, what needs to be understood is whether MNC operations contribute to the underlying causes of the resource curse, or whether their activity reduces the institutional problems underlying this phenomenon. The resource curse only appears in countries with inadequate and dysfunctional institutions, and a number of proposals have been put forward in recent years to correct such 'government failures'. These include the self discipline of economic actors such as MNCs, and whether MNCs can influence the behaviour of the government in question

by engaging in institutional co-evolution. Furthermore, MNCs should contribute to maintaining peace and security by addressing social and environmental issues, and by tackling corruption, a key driver of many conflicts, by promoting revenue transparency. Therefore, whether BP, as the focus of this thesis, engages in institutional co-evolution to address resource curse issues will be assessed in Part 3

The efforts of business to increasingly tackle the resource curse represent a key characteristic of the broader evolution of the CSR agenda. Governments and local communities increasingly expect businesses to demonstrate that their operations provide a beneficial impact in terms of addressing the resource curse to contribute to economic development. However, a precise definition of CSR has proved to be elusive because organisational beliefs and attitudes tend to differ. Consequently, a working definition of CSR has been identified to investigate the implementation of business principles, and this is ‘the voluntary requirement for business to behave ethically, and to address negative externalities so that local communities can sustain their livelihoods, in order to contribute to economic development’. In stating this definition, the author has acknowledged the various definitions of CSR and how the discourse on this agenda has evolved.

Nevertheless, the business case for CSR must be established so that firms can see that behaving ethically to address externalities is in their interest. If a firm does not pay attention to satisfying the needs of its multiple stakeholders, its reputation and image would be damaged and, subsequently, investor confidence would be undermined. Together with linking CSR provision with shareholder value delivery, the business case can be made by considering the four important drivers for firms to engage in CSR, and these are to gain a competitive advantage, to maintain a licence to operate, to improve the firms’ reputation, and to maintain employee morale. Indeed, the extractive industry sector in the West has moved towards the triple bottom line which requires firms to include the social and environmental implications of doing business together with the economic bottom line, although this economic bottom line still dominates corporate decision making. Nevertheless, as will be seen in subsequent chapters, extractive industries consider environmental issues to be highly important, and in addition, a high significance is given to social issues. However, how effective their implementation is in

dealing with the resource curse and contributing to economic development is the subject of the remainder of this thesis.

This chapter has also highlighted the link between corporate governance and CSR. These concepts used to be two separate entities. However, they are now converging into a hybrid conception of what should be corporate practice. Despite the obvious link between corporate governance and CSR, little research has been done that links these two concepts, and this thesis explores this link by considering CSR as a part of the essential corporate governance principles. Therefore, one way that this can be achieved is by assessing the governance structure of the firm to discover if that firm has evolved to effectively embrace CSR issues, as the study of BP in the next chapter will consider.

Essentially however, this chapter explicitly linked the resource curse with the integrity of key host country institutions, and highlighted the potential role that could be played by a MNC's CSR principles in building capacity at the institutional environment level and addressing social and environmental issues at the macro-level of the co-evolutionary institutional regime. The remaining chapters of Part 2 will consider initiatives from the global institutional environment level influencing firm CSR behaviour at the micro-level to fulfil this potential role in the wider institutional regime. This material will provide evidence of the development of CSR in Western and Chinese firms that are engaged in operations in Angola as a prelude to an examination of their implementation in Part 3.

# **Chapter 5: The history of BP's and Anglo American's corporate governance and corporate responsibility.**

## **5.1: Introduction.**

This chapter considers whether BP has had long-term experience of dealing with socio-economic needs at the macro-level in the countries where they operate. In addition, the historical evolution of board composition issues will be explored. This is because the composition of the board is important in delivering CSR. Indeed, as BP (2010b: 15) state:

“The board sets the tone from the top, and has established a set of ... principles, which ... [includes not engaging] ... in any activity without regard to health, safety and environmental consequence”.

It will be examined why the composition of the board is important for the delivery of CSR. Then, BP's history will be analysed in depth, drawing upon three published volumes<sup>78</sup> to discover whether BP has had long time experience of embracing CSR issues. Then today's CSR for BP will be examined utilising their reporting mechanisms, together with a comparison with two other oil firms engaged in operations in Angola. In particular, initiatives from the global institutional environment will be considered, along with the evolution of the CSR agenda. This chapter will then turn its attention to Anglo American to assess whether BP's CSR principles are applicable to socio-economic needs in the African setting because it is a firm with long-term African experience.

## **5.2: The role and structure of the board.**

Elkington (2006b: 101) states that the triple bottom line agenda that was outlined in the previous chapter is the responsibility of the corporate board, and today, according to Warhurst (2011: 68), rising societal expectations of the corporation means that the responsible corporation should bring corporate governance into the realm of CSR. To achieve this, the role and structure of the board of directors, together with the independence of its non-executives, is important for integrating CSR into the corporate

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<sup>78</sup> These volumes of *The History of The British Petroleum Company* were written by Ferrier (1982), Bamberg (1994), and Bamberg (2000).

culture. Indeed, Finegold *et al* (2011: 258) noted that CSR related issues, ranging from global warming to labour conditions, have found their way into the boardroom; and consequently, as we saw in the Chapter 4, CSR can be seen as an ‘expanded view of corporate governance’.

A review of the literature has revealed only three studies of how firms evolve their corporate governance structures to integrate CSR into their decision-making processes. De Wit *et al* (2006: 491-492, 497) produced a case study of Royal Dutch Shell that showed that the processes of hardwiring (involving having a continuing programme of aligning key business processes within a governance framework of commitments, policies, standards, and guidelines) and soft wiring (involving ‘routinising’, where their members at all levels are made aware of and trained in implementing the programme) were both essential for embedding CSR issues within a global organisation. Ricart *et al* (2005: 24-25, 28) studied the 18 corporations that are leading the market sectors considered by the Dow Jones Sustainability World Index, and analysed how and to what extent they were integrating CSR into their corporate governance systems. They researched, amongst other things, whether board members had the skills, experience, and capabilities required for developing as effectively as possible their specific responsibilities regarding CSR. They expected all these firms to have in their boardrooms members and executives who are capable of providing essential new viewpoints and expertise on CSR, only to find that five of the boards were inadequately conversant with CSR issues, and only four firms had formal training programmes on CSR for their board members. Mackenzie (2007: 935) studied whether UK board activity is as effective as it could be at achieving corporate compliance with CSR standards, and found that board activity should do more to address market failure and misaligned performance management systems. Therefore, we will add to this debate by assessing whether BP has evolved a corporate governance structure to embrace the CSR agenda.

### **5.3: Board composition and CSR.**

The best way to ensure that CSR issues are discussed at board level is to have a diversity of board members, not only with respect to their disciplinary expertise, but also in terms of their personality. The successful adoption of CSR can be explained by having board members who are creative thinkers (Cramer and Loeber, 2004: 11). When

it comes to effectively embracing CSR issues within the boardroom at the micro-level, it is often recommended at the institutional environment level that the board must have external directors. Resource dependency theory suggests that selecting external directors will provide more viewpoints, information, and legitimacy. External board members are more likely to oppose the narrow definition of organisational performance that focuses upon financial performance, and will instead promote the needs of the macro-level wider society. Furthermore, external directors should be more sensitive towards stakeholder issues and, in addition, they may feel inclined to promote costly or unpopular decisions that could potentially benefit wider society (Ayuso and Argandona, 2007: 6).

Denis and McConnell (2002: 7-9) state that empirical evidence is perhaps open-ended regarding the effect of board characteristics on firm value. Despite this, various European commissions have embraced the idea that appropriate board composition is important to good corporate governance. Codes of Best Practice from the institutional environment level have been issued in a number of European countries, starting with the UK in 1992. These codes ask for independent directors on the boards of firms at the micro-level. The problem is that codes are voluntary in nature, and naturally the degree of compliance varies across Europe. However, compliance is easier in the UK, due to the greater presence in the UK of controlling shareholders who do not wish to see their influence reduced by the addition of too many independent directors on boards.

Dahya *et al* (2002: 461) consider the impact on board effectiveness of the UK Code of Best Practice, first put forth by the Cadbury Committee. The 1992 Cadbury Report is essentially self-regulatory in nature, and has since been joined by the 1995 Greenbury and the 1998 Hampel Reports to comprise the Combined Code (Maclean and Harvey, 2008: 212). The Combined Code requires boards to maintain a 'sound' governance system (Woods, 2008: 1075), and consequently, any firm that adopts its principles has an O advantage of adhering to a recognised code of good corporate governance. Dahya *et al* (2002: 461-462, 469, 479) state amongst other things, that the Code recommends that the positions of chairperson and Chief Executive Officer (CEO)

be held by different people,<sup>79</sup> and that corporate boards include at least three outside directors. Whilst the Code is voluntary, the London Stock Exchange does require that all listed companies explicitly indicate whether they are in compliance. If not, an explanation is required. Dahya *et al* found that CEO turnover has increased in the UK after the issuance of the Cadbury Report, and that the sensitivity of turnover to performance is stronger. They conclude that the increase in the proportion of outsiders on the board, rather than the separation of the Chairperson and CEO positions, explains this, and thus the presence of outsiders would increase CSR performance.

#### **5.4: BP: a history of board composition issues.**

Today's Combined Code from the UK's institutional environment to influence the micro-level recommends three outside directors on boards, and the company in the 1920s had five. Empirical evidence to support the notion of limiting the number of outside directors has been provided by Franks *et al* (2001: 209), who examined a sample of poorly-performing UK firms, and found that boards dominated by outside directors impeded the performance of managing directors. Therefore, would the then chairman, Cadman,<sup>80</sup> want the non-executive representation, including the five outside directors, thinned out? Long before the evidence of Franks *et al* it appears that Cadman did not want the aging outside non-executive directors to impede the performance of the more youthful managing directors, because Cadman did indeed rely on natural wastage to reduce the outside non-executive representation. When two outside non-executive directors died they were not replaced, reducing the number of outside directors to three, the number recommended today (Bamberg, 1994: 16).

From the end of the Second World War to 1951, the board's organisation had all the hallmarks of a cautious approach to management and finance, reflecting the fact that all of the board members were somewhat aged. Consequently, the board membership underwent a high turnover, but this did not introduce a younger generation of executives. If advancement in years correlates to diminishing energy or freshness of ideas, this represents a cause for concern for the company because it would need to

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<sup>79</sup> The board's role in representing outsiders counts upon whether the chairman of the board is also the CEO, which is known as CEO duality. This is because if the chairman and the CEO is the same person, conflicts of interest may arise which may result in a lower level of voluntary corporate disclosure (Lattemann *et al*, 2009: 431).

<sup>80</sup> See Appendix 3.

avoid a ‘creeping movement towards gerontocracy’ at board level. However, Fraser, Cadman’s successor as chair, tended to replace aged board members with new appointments who were also well advanced in years, perhaps reflecting the cautious approach that was the hallmark of Fraser and the board generally at this time.

By the end of the war, the three outside non-executive directors had financial backgrounds and they were replaced by more City men. These actions represent a set of built-in preferences (action determinism within strategic choice analysis),<sup>81</sup> and therefore, the financial bottom-line was of prime importance at board level at this time.<sup>82</sup> However, the company maintained three outside directors (Bamberg, 1994: 213-215, 261-267).

Today’s Combined Code in the UK also recommends that the positions of chairperson and CEO be held by different people. In the 1950s, Fraser held the positions of both chairperson and CEO. At this time, one of the most vital issues for the company was the search for a suitable successor to Fraser as chairman and CEO. It could be said that if the positions of chair and CEO were held by different people, then if the chair retires, for example, the CEO could be a ready-made successor. However, the main cause of the company’s succession problem was inadequate succession planning. A distinct absence of a younger generation of new talent on the board meant that there was an absence of suitable candidates to succeed Fraser.

Between 1954 and 1960 the company’s succession problem became a matter of keen interest to the Conservative governments of the time, and consequently it was widely consulted about this issue. The result of the discussions was that when Fraser retired in 1956, his successor would be Jackson, with Gass as his deputy, even though they were both in their sixties. The vacancy on the board because of Fraser’s retirement would be filled by Bridgeman, who finally provided some younger talent by his presence. After less than a year in the chair, Jackson resigned because of ill health and he nominated Gass as his successor. However, Jackson apparently did not consult the British government, about nominating Gass, who were concerned by the lack of young talent. Gass soon announced his intention to retire, instigating another succession problem. However, the British government was fully consulted this time, and they

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<sup>81</sup> See section 2.3.

<sup>82</sup> Rather than the triple bottom line.

favoured the younger Bridgeman who took over as chairman in 1960. The government were even assured that more younger talent would be added to the board. Drake was soon marked out as a likely successor to Bridgeman, and consequently, when Bridgeman retired in 1969, Drake took over as chairman and CEO (Bamberg, 2000: 49-57, 316-322).

Walters succeeded Drake in 1981, and then, as Horton took over at BP in 1990 he initiated Project 1990,<sup>83</sup> whose shortcomings forced him to resign in 1992 and his role was split between Lord Ashburton and David Simon. Subsequently, Browne took over as BP's chief executive in 1995 (Jones and Wolf, 2002: 49-50), whilst the chairman of the board was Sutherland, who was a non-executive and was appointed in 1997 (BP, 2002a: 41). Hayward succeeded Browne as CEO in 2007 (BP, 2006a: 65), and in 2010, Svanberg became chairman and Dudley succeeded Hayward as CEO (BP, 2010a: 84).

Today, BP's

“board is actively engaged in succession planning issues for both executive and non-executive roles [in] pursuit of an orderly process of evolution to refresh the composition of the board without compromising its continued effectiveness. ... Our board is large<sup>84</sup> but ... a board of this size allows orderly succession planning for key roles” (BP, 2005a: 159).

Therefore, by the early 21<sup>st</sup> century, adequate succession planning was in place, since BP had introduced mandatory retirement ages for board members, rather than relying upon the earlier natural wastage. Executive directors retire at age 60, while non-executive directors normally retire at age 70 (BP, 2004a: 112). In making appointments to replace them, as BP state,

“the opportunity is taken to ensure a broad range of skill-sets” (BP, 2003c: 103).

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<sup>83</sup> Project 1990 aimed to reduce organisational complexity, reshape the central organisation, and reduce costs. Horton sought to cut US\$750 million from BP's annual bottom line by changing the corporate culture, under the conviction that BP had become overly bureaucratic and, as a result, strategic flexibility was being handicapped. However, Project 1990 quickly came to represent wholesale job cuts and low morale amongst the workforce. Over 16% of the total workforce was cut between 1990 and 1992, with the intention of shortening the lines of command and promoting individual responsibility (Jones and Wolf, 2002: 49-50).

<sup>84</sup> As BP state: “the board governance principles require [that] the majority of the board [should] be composed of independent non-executive directors and the size of the board [should] not normally ... exceed 16 directors. The board is composed of the chairman, 10 non-executive and five executive directors; in total, four nationalities are represented” (BP, 2007a: 74).

One might assume that taking such an opportunity would mean that not merely the financial bottom line would be considered at board level, but also the triple bottom line (with also the environmental and social bottom line). However, BP feels that

“a breadth of skills is required for the board to meet the demands of a business with global operations. These skills include deep operational, engineering, safety and financial expertise, experience of leading industrial, capital intensive or ‘long lead time’ businesses and insight into key emerging markets and technology development” (BP, 2008b: 70).

All of these skill-sets seem to reflect a concern for the financial bottom line, operational and technical expertise, and knowledge of the competitive market. None of these skills would embrace a deep understanding of environmental issues and, in particular, the social impacts of BP’s activities. Indeed, BP feels that

“the company has adequate resources to continue in operational existence for the foreseeable future” (BP, 2001a: 3),

suggesting that continued existence and the financial bottom line still dominates corporate decision-making.

Today,

“BP has adopted a robust set of board governance principles, which reflect the UK’s Combined Code and its principles-based approach to corporate governance. As such ... BP’s board governance principles require that all non-executive directors be determined by the board to be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of their judgement. The BP board has determined that, in its judgement, all of the non-executive directors are independent” (BP, 2009a: 106),

and as of 1<sup>st</sup> January 2011, BP’s board composed of the chairman, three executive directors (one of whom is ‘group chief executive’, so the issue of CEO duality has been resolved, possibly influenced by the Combined Code from the UK’s institutional environment) and 11 non-executive directors. Today, the

“board delegates some of its oversight and monitoring activities to its committees, composed entirely of non-executives. The chair of each committee provides updates on committee activities to the wider board. One of the five permanent committees – the safety, ethics and environment assurance committee (SEEAC) – monitors the management of non-financial risk. [In addition,] an international advisory board advises the chairman, group chief executive and board of BP plc on strategic and geopolitical issues relating to the long-term development of the company” (BP, 2010b: 15).

This leads to a defined structure for BP's corporate governance, as Figure 5.1 on the next page shows, representing a corporate structure that has evolved over time. As one can see from Figure 5.1, the board directs and oversees performance, and responsibility is designated downwards to relevant teams and committees who cover areas such as non-financial risks, sustainability performance, and local operations. Potentially, this is an effective governance mechanism that has evolved to embrace CSR, but whether BP actually does this effectively will be assessed in Part 3. Of all of these committees, the one that the casual observer might imagine fully considers environmental and social issues is the SEEAC. BP outline that

“the role of the SEEAC is to look at the processes adopted by BP's executive management to identify and mitigate significant non-financial risk, including monitoring process safety management, and receive assurance that they are appropriate in design and effective in implementation” (BP, 2011a: 128).

Although a subsequent review of its role, as it was reported, revealed some concerns over the environmental consequences of oil spills from shipping, there is no mention of other environmental considerations, and no mention of considering the social impact of their operations. One wonders therefore, if there is no committee to embrace social issues, how socio-economic needs are considered.

### **5.5: The first generation of BP's CSR.**

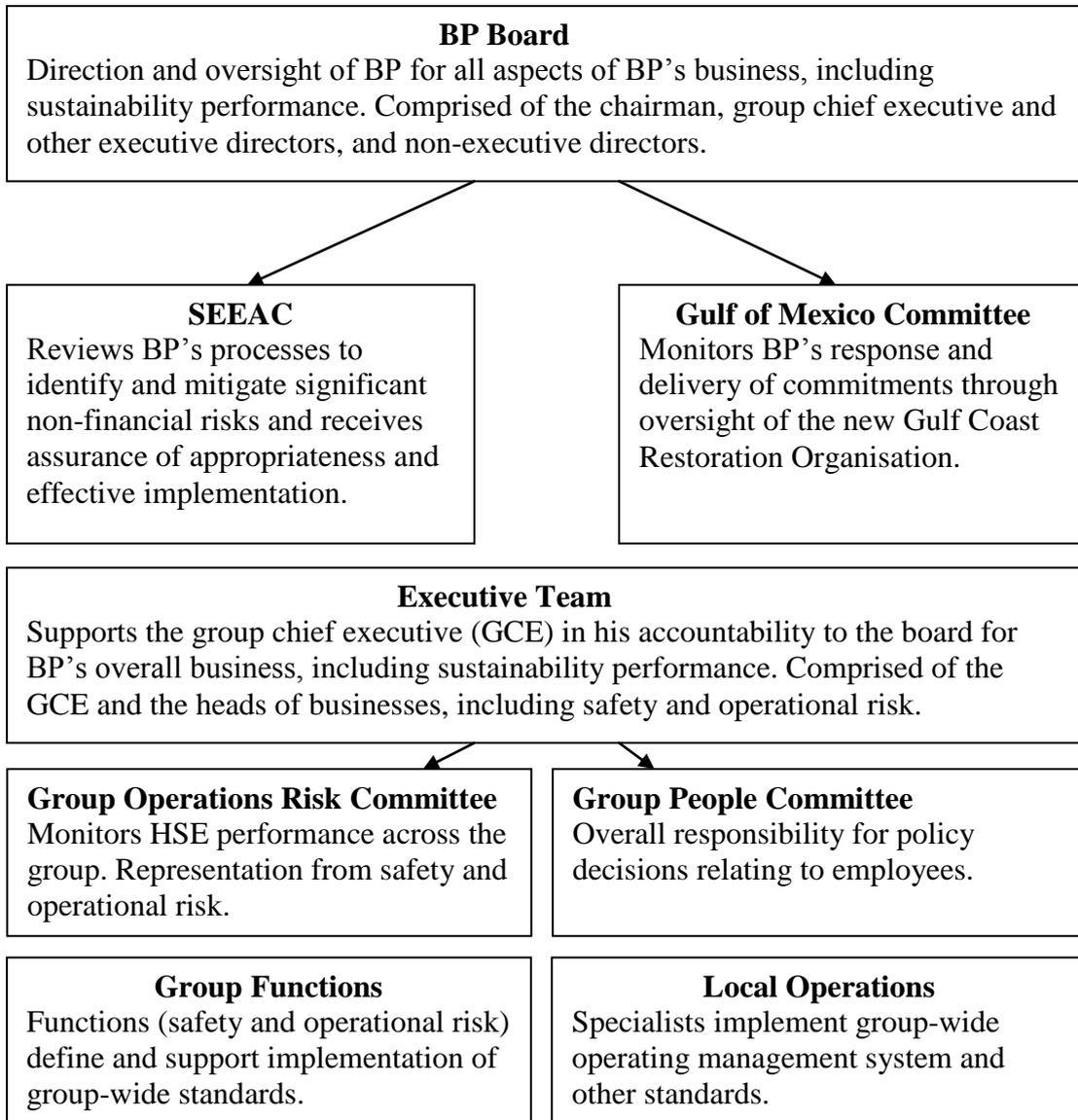
As we saw in the previous chapter<sup>85</sup> a common emerging pattern can be identified concerning the broader evolution of the CSR agenda, which contains three generations. Ad-hoc responses to societal challenges characterises the first generation of CSR, and as will now be outlined, evidence on BP's activities shows that this has been occurring since the company first engaged in operations, long before the CSR concept was actually emerging.

In constructing the original D'Arcy Concession,<sup>86</sup> an early social issue was raised concerning the nationality of the workforce by the Persian Imperial Commissioner, Sadigh al-Saltana, in 1909. Senior staff at that time comprised of five Austrian mechanics and five Canadian drillers. The general fields manager, assistant

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<sup>85</sup> See Section 4.3.1.

<sup>86</sup> See Appendix 3.



**Figure 5.1: BP's Organisational Structure to Manage Sustainability Issues (BP, 2010b: 15).**

fields manager, office manager, surveyor, transport officer, and doctor were all British. There were no returns on local staff. However, a tentative attempt was made to provide them in 1910. The acting-consul at Muhammara, Arnold Wilson, was consulted, and he produced a report on the local labour situation in which he stressed that the population of the Shatt-al-Arab delta region, where this activity was concentrated, was ethnic Arab rather than Persian. In the customs and shipping sector, for example, there was only a small employment of Persians compared with Arabs and Ottoman Turks. Wilson

concluded that ‘no local resentment is therefore likely’ ... ‘by’ ... ‘importing foreign labour to fill vacancies which, it is universally accepted, cannot be filled locally’.

Despite this reassurance, Greenway<sup>87</sup> remained apprehensive about Sadigh al-Saltana’s objection to the employment of Ottoman Turks. Greenway wrote to the local managing agents who ran the concession for the company, saying that he believed that serious difficulties may arise unless they can justify employing so many non-Persians. Although the managing agents remained unconvinced, citing the general inadequacy of Persian workers, Greenway continued to dismiss such comments (Ferrier, 1982: 92, 144, 153-154), perhaps recognising the delicate relationship that has to be maintained with host country officials (institutional environment and micro-level interaction).

Social problems, together with technical problems, were indeed the weak spots in the administration of the managing agents. In 1920, Nichols, a loyal assistant to Greenway, arrived in Abadan, Persia. Nichols immediately impressed social issues upon the managing agents there by saying that it was necessary to recognise ‘the changing conditions and temper of labour everywhere’. By now, Greenway too was recognising such weaknesses in the managing agents. However, he believed that they could be improved by better staff. To that end, Wilson was appointed as a resident director, arriving in Muhammara, Persia in 1921; and subsequently, Nichols informed Wilson that he should replace the managing agents with himself. It is likely that this sudden change of heart resulted from earlier criticism of the excessive earnings of the managing agents. Wilson had raised this issue in 1919, and Greenway himself said in 1921 that the earnings of ‘the managing agents were much in excess of the amount anticipated’ (Ferrier, 1982: 206, 308, 316-317). Therefore, the company had early concerns about social issues. However, it was concerns about the excessive earnings of the managing agents that instigated their replacement, not their failure in dealing with social issues.

Between 1930 and 1938 there was an active movement towards ‘Iranianisation’ of the workforce, meaning the increased employment of Iranians relative to the employment of foreigners. Although the above evidence points to the fact that employment of locals was clearly an issue before this time, by now this had become a prominent issue in the company’s relations with the Iranian government. As a result, the

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<sup>87</sup> Greenway was the dominant figure in Anglo-Persian’s early years (Jones and Wolf, 2002: 46).

number of Iranians employed by the company rose from 86.8% in 1930 to 94% in 1938. The remaining 6% were mostly British and Indian. Therefore, Arab and Turkish employment had been phased out. However, the small minority of British staff led the life of a privileged elite, the stereotype of the British abroad during the age of empire. Although Iranians accounted for the majority of the workforce, they only performed menial tasks. Indians performed most of the clerical and foremen duties, whilst the top managerial, administrative, professional, and technical activities of the company's operations were all performed by Britons. It was very much the case that the necessary skills, experience, and qualifications to perform these top activities could not be found in the local Iranian populace.

Although Iranians mostly performed menial tasks at this time, some progress was made in training Iranians. This could be regarded as an early attempt to act as an agent for change since the company at the micro-level initiated change at the institutional environment level by improving education, which as can be seen in Figure 2.2 is part of the institutional environment. By the time of the Second World War however, an Order-in-Council was introduced by the British government in December 1941. This classified the company's operations in Iran as 'essential undertakings' for the war effort, and British subjects employed in the company's operations in Iran were not allowed to leave their jobs without express permission. However, the Order-in-Council did not apply to Iranian employees, who preferred to leave the company to work for the British and American armed forces, who were large employers in Iran. Consequently, the company was forced to recruit replacements from a wide net, including Czechs, Poles, and Palestinians. In addition, personnel were recruited from the armed forces on loan, from Burmah Oil, and from the wives and older children of the company's British staff. As a result, the pre-war progress in training and employing local Iranians was lost.

It was Gass, responsible for concession, supply, purchase, and procurement under Fraser, who, at the end of 1947, emphasised the need for what one could interpret as improved social content. After visiting Iran, and recognising the need to employ more Iranians, he stressed the need for improved training facilities for local Iranians, coupled with wider educational facilities. Following on from this Elkington, in 1949 after also visiting Iran, gave the board a detailed report on operations in Iran which

included the need for a housing programme for employees. Elkington had earlier, in 1935, foreseen that production costs in Iran would be likely to rise, because of the responsibility that the company has to bear in providing employment and social infrastructure that it would not have to provide in other more developed countries. He recognised that the company would have to maintain housing, hospitals, and schools, ‘all those functions normally furnished by state or private enterprise’.

The company’s General Plan of 1936 had provided not only for employing more Iranians, but also for the training of Iranians as artisans, and for the training of Iranians for technical and commercial jobs. After the war, training schemes were continued by the company in Iran, and the company even sponsored Iranian students for study in Britain. A Technical Institute had been founded at Abadan, which was providing courses for graduates of Tehran University by the 1940s. The company furthered its links with Tehran University by providing its Engineering Faculty with a £150,000 grant for laboratory equipment. The company even sent three British lecturers to the Faculty, together with staff from their training department, to train the Iranian lecturers how to use the new equipment.

The company also financed a housing programme, and over 10,000 houses were constructed between 1946 and 1950 around Abadan. The company also provided shopping, restaurant, and leisure facilities for employees and their dependents. The leisure activities included nineteen cinemas, twenty swimming pools, and various sports grounds. In 1950 the International Labour Office (ILO) commented on how the company was responding to their social responsibilities, by saying that by ‘looking objectively ... at the manner in which this problem has been tackled, the observer cannot fail to be impressed’. The ILO was also impressed by the health and medical services that the company was providing for employees and their dependents. In addition, the British Medical Association’s assistant secretary was impressed, reporting that the company’s clinics and health centres were, in 1951, the ‘fulfilment of a general practitioner’s dream’. The company was providing four hospitals with 853 beds and 35 clinics, with 101 doctors of whom ten were specialists, seven dentists, and 130 nurses. The company also introduced a preventative medicine programme in Iran to eradicate cholera, dysentery, malaria, smallpox, and typhus in the wider population. The annual cost of the health and medical services that the company was providing in Iran was £2

million (Bamberg, 1994: 80, 84, 249-250, 266, 356, 361, 367, 374-375). Consequently, the company at the micro-level has been striving to improve socio-economic needs at the macro-level for a long time, but whether they have learnt from this experience will be assessed in Part 3.

### **5.6: The second generation of BP's CSR.**

The second generation of CSR saw a professionalised approach to social and environmental impacts being adopted, involving setting commitments and targets, and measuring and reporting on social and environmental performance.<sup>88</sup> BP first started to report on their social and environmental performance in 1998, and in 2000, they stated that their policy commitments were

“that, wherever we operate, our activities should generate economic benefits and opportunities for an enhanced quality of life for those whom our business impacts; that our conduct should be a positive influence; that our relationships should be honest and open; and that we should be held accountable for our actions. Our business policies focus on five areas: ethical conduct; employees; relationships; health, safety and environmental performance; and control and finance” (BP, 2000: 10).

Concerning setting targets and measuring their performance, BP stated that:

“We are moving towards sustainability by recognising and identifying our environmental and social impacts, setting targets for improvements, developing new tools and new businesses, learning from others and measuring progress so we can adjust our efforts as necessary” (BP, 2000: 8).

Concerning environmental issues, for example, BP stress, that:

“Assessing BP's performance on biodiversity is not easy. We have developed ideas on biodiversity measures, both internally and in conjunction with others, to understand how best to measure, report and ultimately improve our performance” (BP, 2001b: 14).

Specific observations that were reported from Ernst and Young<sup>89</sup> include:

“Nationalisation targets were in place in Angola, Azerbaijan and Colombia as required by their Production Sharing Agreements (PSA). Both Angola and Azerbaijan had plans in place to work towards

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<sup>88</sup> See Section 4.3.1.

<sup>89</sup> Ernst and Young are independent auditors to BP who are required to comply with the independence requirements set out in the Guide to Professional Ethics of the Institute of Chartered Accountants in England and Wales, the Code of Professional Conduct of the American Institute of Certified Public Accountants, and well as the rules of the US Securities and Exchange Commission (BP, 2002b: 31).

achievement of the nationalisation targets and ongoing future requirements in their PSA. In Angola and Azerbaijan national employees recognized as having high potential were being developed and/or placed in leadership positions. The Colombia Business Unit had already achieved its PSA nationalisation targets” (BP, 2002b: 24).

### **5.7: The third generation of BP’s CSR.**

The third generation of CSR involves the adoption of the broad aims of sustainable development,<sup>90</sup> and 2003 marks the first time that BP’s reports were actually called sustainability reports. Subsequently, the essence of BP’s reporting ever since has been sustainability. For example:

“The prospect of climate change is a challenge we have to address if we are to fulfil our aspiration to be a sustainable company in a sustainable world” (BP, 2003b: 23).

“We aim to make [community investment] programmes contribute to sustainable development, rather than end their beneficial impacts when BP funding ceases or we leave a location” (BP, 2010b: 40).

BP believes that their reporting should now

“demonstrate what sustainability means in an integrated manner, in a global and local context. We aim to show how environmental, social and ethical issues play their part in our business strategy and align with our governance processes” (BP, 2003b: 40).

This brings us to what BP say that they are doing to address the issues that have been deemed relevant regarding this thesis. In line with the principles of sustainable development, BP report that they assist development:

“We help provide sustainable solutions by bringing our collective experience and resources to bear [and] the major areas of our involvement are education, enterprise, governance and transparency” (BP, 2007b: 34).

Regarding these ‘major areas of involvement’, BP says that, firstly, concerning education:

“Investment in education ... can promote sustainable development as well as providing skilled workers for BP and other companies” (BP, 2008a: 21).

This is because:

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<sup>90</sup> See Section 4.3.1.

“Education is critical to development. As a key activity within our corporate responsibility framework, education focuses on issues that affect our future: energy and the environment, basic education and enterprise development” (BP, 2005b: 56).

Secondly, concerning enterprise development (and in Angola specifically):

“In Angola, where, along with Sonangol, we lead the industry group responsible for helping local companies become more competitive, we worked with the US NGO, Citizens Development Corps, to set up the Centro De Apoio Empresarial business support centre in September 2005. The centre was launched as part of the Angolan government’s national participation development project, to help smaller Angolan companies do more business with the energy sector. Since launch, the centre has provided 39 separate training programmes, attracting 547 participants, while 11 of the centre’s clients have been awarded 15 energy-sector contracts. In September 2006, a BP-sponsored event brought together 35 energy sector companies and invited 100 local enterprises to explore business opportunities” (BP, 2006c: 41).

“In Angola, BP has been part of the industry wide drive to build up capabilities in the aftermath of the civil war. For example, we supported the Enterprise Development Centre in Luanda for five years before handing over management of the project to the local chamber of commerce in 2011. With a goal of building the capacity of Angolan businesses to participate more actively in the local economy as suppliers of goods and services, the centre has led to the development of more than 300 contracts between local small to medium-sized enterprises and the oil and gas industry, creating an estimated 4,200 jobs” (BP, 2011b: 45).

Thirdly, concerning supporting good governance:

“In terms of assisting governments to advance sustainable development, we support projects to build skills and capacity among local government officials in the region. This includes technical assistance in budget topics and training in accounting and asset management” (BP, 2009c: 33).

Finally, and related to the issue of good governance because, as BP themselves state:

“Promoting good governance – transparency in public finances and prudence in managing revenues – in places where we operate is critical in helping ensure that wealth derived from energy resources is used effectively” (BP, 2007b: 35),

concerning transparency:

“On some issues transparency remains a challenge for our industry, including payments to governments. In this area, BP has supported the Extractive Industries Transparency Initiative (EITI) and will continue to

work with others to build frameworks for greater transparency” (BP, 2003b: 40).

To ‘work with others’, BP cooperates with

“governments, NGOs, international agencies and companies in the EITI, which aims to contribute to sustainable development and poverty reduction by increasing transparency about revenue flows” (BP, 2004b: 13).

How BP implements these ‘major areas of involvement’ will be assessed in Chapter 8.

### **5.8: The evolution of the CSR agenda for Royal Dutch Shell and Chevron.**

In order to assess whether the above evolution of the CSR agenda is unique to BP, the reporting of Royal Dutch Shell and Chevron, two other oil majors that operate in Angola, will now be assessed. Royal Dutch Shell’s reporting reveals a similar evolution of the CSR agenda. Royal Dutch Shell

“made a formal commitment to contribute to sustainable development in 1997” (Shell, 1999: 22),

and

“consistent with their commitment to contribute to sustainable development, Shell companies have a systematic approach to health, safety and environmental management in order to achieve continuous performance improvement. To this end Shell companies manage these matters as any other critical business activity, set targets for improvement, and measure, appraise and report performance” (Shell, 1998: 26).

Therefore, this is in line with the second generation of the evolution of the CSR agenda (setting targets, measuring, and reporting performance), although the concept of sustainable development is more widely acknowledged in these earlier Royal Dutch Shell reports. Today, their commitment to sustainable development

“means how to do business in economically, socially and environmentally responsible ways” (Royal Dutch Shell, 2011: 9).

Nevertheless, fully committing the broad aims of sustainable development, and therefore, transferring to the third generation of the CSR agenda, may coincide with

adopting a global initiative, namely, the Global Reporting Initiative (GRI). In 2000, Royal Dutch Shell stated that

“This report has been produced within the spirit of the GRI guidelines” (Shell, 2000: 32).

By 2005, the first time that the report was called ‘Sustainability Report’, they stated that

“we continue to report in accordance with the Global Reporting Initiative” (Shell, 2005: 37).

The global initiatives that are endorsed perhaps acquire some significance here, and in 2001 they stated that

“we support and are guided by the UN Global Compact, OECD Guidelines for Multinational Enterprises and the Global Sullivan Principles when making foreign direct investments” (Shell, 2001: 10),

although from 2003 onwards there is no mention of support for the Global Sullivan Principles in Shell’s reporting, the significance of which will be described below.

Chevron, in their first corporate responsibility report, appeared to adhere to the second generation of the CSR agenda because they stated that they were

“working to better understand, measure and report our social impacts and performance” (ChevronTexaco, 2002: 9).

Their first corporate responsibility report was

“informed by the Global Reporting Initiative” (ChevronTexaco, 2002: 4),

and the following year they stated that they would

“continue to be informed by the Global Reporting Initiative” (ChevronTexaco, 2003: 1).

However, in their first corporate responsibility report they stated that they would only

“apply [the GRI] as appropriate for our company in future reports” (ChevronTexaco, 2002: 4),

and the significance of this will be revealed below.

Although a review of subsequent ChevronTexaco reports does not reveal a reference to the term sustainable development to the extent of BP and Royal Dutch Shell, the concept is mentioned, albeit briefly. For example:

“Chevron has long ... endorsed the Global Sullivan Principles. The principles promote business support for human rights, economic justice,

racial and gender equality, sustainable development, and a healthy environment” (Chevron, 2008: 41).

Therefore, sustainable development is only a part of their principles, whilst BP, for example, now treat sustainable development as encompassing their whole business principles. This raises the question as to what is Chevron’s approach? Their long-term endorsement of the Global Sullivan Principles is key the difference. Indeed,

“Chevron was among the first supporters of the [original] Sullivan Principles in 1977, which called for equal treatment of employees regardless of race. That year, 40 percent of our more than 700 black workers were moved into refinery jobs traditionally held by whites” (Chevron, 2011: 24).

Chevron stated that they

“supported the relaunch of the Global Sullivan Principles in 2005. The principles retain their original objective of addressing a wide range of human rights issues. Two strategic objectives of the relaunch are to promote the principles in order to provide a leading voice for responsible development and to advocate for strong national governance. These two objectives underscore the Rev. Leon H. Sullivan’s vision of corporate responsibility (see below)” (Chevron, 2005: 18).

Interestingly, there is no mention of the OECD Guidelines or the UN Global Compact in Chevron’s reporting, and the influence of the differing endorsement of global initiatives will be discussed below. Firstly however, we need to discover which global initiatives BP endorse.

### **5.9: BP’s endorsement of global initiatives.**

As BP state:

“Part of our responsibility as a company is to ensure that our work is a force for social and economic progress. This involves working with ... global institutions to create conditions in which resource development reduces poverty, improves living standards and creates jobs” (BP, 2004b: 5).

Working with global institutions involves the co-evolutionary interaction in which global initiatives from the global institutional environment is influencing BP’s behaviour at the micro-level. The global initiatives that BP endorse include, as BP state:

“We ... respect the ... 1976 OECD Guidelines for Multinational Enterprises [and] BP was involved in the discussions leading to the launch of the UN Global Compact, for which we have pledged support” (BP, 2000: 7).

Indeed, it has since been confirmed that

“BP is a signatory to ... the UN Global Compact” (BP, 2011b: 29).

It should be noted here that there is no mention of the Global Sullivan Principles in BP’s reporting, and in 2003, BP stated that

“this year, for the first time, we are reporting in accordance with the guidelines of the ... GRI. The guidelines, launched in 2000 and revised in 2002, provide a comprehensive set of indicators covering all dimensions of sustainable development” (BP, 2003b: 40).

Indeed, it was that year that marked the first time that BP’s reports were actually called sustainability reports, and the concept of sustainable development has since embraced the essence of BP’s reporting,<sup>91</sup> marking their transfer to the third generation of the CSR agenda. We shall now engage in a critique of these various global initiatives in order to assess which ones are likely to be relevant to the Angolan setting, and their impact can then be assessed in Part 3.

### **5.10: The global initiatives compared.**

Many supra-national institutions from the institutional environment level have issued guidance documents regarding good micro-level governance practice. Whilst these recommendations might be well-intentioned, their implementation in practice has the greatest impact on responsible corporate conduct (Spitzeck, 2009: 496). The initiatives from the global institutional environment under review have different sponsors, namely inter-governmental organisations, individuals, religious groups, and business executives. The issue of sponsors, in that whose ideas and/or principles the initiative represents, and how broad is the consensus underpinning the initiative, is a key consideration in trying to understand the channels through which these initiatives influence firm behaviour.

The global initiatives under review include, firstly, the OECD Guidelines for MNEs, which are rooted in long-term inter-governmental co-operation and are closely linked to a broader framework for international investment, the OECD Declaration on International Investment. This initiative is an expression of the shared expectations of the adhering governments. Secondly, the Global Compact is also sponsored by an international organisation, the UN, and various UN Secretariats are involved in its

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<sup>91</sup> See Section 5.7.

promotion and many firms have endorsed it. Thirdly, the Global Sullivan Principles were developed by Reverend Leon H. Sullivan, a religious individual and well-known anti-apartheid activist. The initiative is underpinned by Sullivan's contacts and credibility with the international business community. The idea behind both the Global Compact and the Global Sullivan Principles is to establish general principles and then utilise the initiatives' endorsement processes to influence firms to continuously improve their behaviour. Finally, the objectives of the Global Reporting Initiative (GRI) are distinct in that it seeks to help firms go beyond the commitment phase of CSR and into the monitoring and reporting phases. The sponsors of the GRI are a broad alliance of diverse organisations, although it is partially funded by an international organisation, the UN Environment Programme (Gordon, 2001: 3-4). These four global initiatives are further summarised in Box 5.1, and we shall now examine how they influence firm behaviour.

#### **5.10.1: The OECD Guidelines.**

The OECD Guidelines were first published in 1976, and although they are not legally binding, OECD member states have agreed to adhere to them and encourage their firms to observe them wherever they operate. The OECD Guidelines contain recommendations on human rights, employment and industrial relations, environment, bribery, consumer interests, science and technology, competition, and taxation. (Bantekas, 2004: 322).

Figure 5.2 identifies 30 specific issue areas under six broad headings that have been deemed relevant to the developmental issues that embrace the research agenda of this thesis. The OECD Guidelines scores second in the comparison as it articulates 22 of these issues. Consequently, they can be considered to be one of the most wide-ranging global initiatives. However, despite their extensive nature, Cassel (1995: 1970) felt that the OECD Guidelines broke little new ground, and only reaffirmed the longstanding rights of workers to organise unions, bargain collectively, and to non-discriminatory employment. BP and Royal Dutch Shell both adhere to the OECD Guidelines, and its voluminous nature may mean, as Ruggie (2002: 28) stresses, that its supporters may have excessive expectations of what firms can actually deliver. Therefore, should there be initiatives that have more limited expectations of firms?

**The OECD Guidelines for MNEs:** (revised in 2000) The Guidelines are broad recommendations covering nine areas of business conduct addressed by governments to MNCs. While observance of the recommendations is purely voluntary, adhering governments sign a binding decision to participate in its implementation and to promote their observance by firms operating in or from their country.

**The United Nations Global Compact** was launched 2000, and calls upon world business leaders to ‘embrace and enact’ a set of nine principles in their individual corporate activities. The initiative includes specific practices that endorsing companies must commit to enact.

**The Global Sullivan Principles** were issued in 1999 and are what can be described as an aspirational standard that has been developed with the input of several MNCs. They were written by Reverend Sullivan, whose original Sullivan Principles provided guidelines for companies doing business in South Africa. Companies endorse the Principles by publicly pledging to incorporate them into their operations.

**The Global Reporting Initiative (GRI)** was issued in 1999, but its development is ongoing, and it is an international reporting standard for voluntary use by organisations reporting on the economic, environmental, and social dimensions of their activities. The GRI has developed specific reporting indicators with input from reporters and report users (including academics, accounting firms, business associations, consultancies, corporations, and NGOs, amongst others), but it is led by the Coalition of Environmentally Responsible Economies (CERES) and is a non-financial reporting framework. Although it does not provide recommendations on business conduct, it is informed by the norms of business conduct. However, the GRI does not assess companies’ conformity with its reporting guidelines (Gordon, 2001: 9).

**Box 5.1: The Initiatives from the Global Institutional Environment.**

|   | Global Reporting Initiative | Global Sullivan Principles | OECD Guidelines for MNEs | UN Global Compact |
|---|-----------------------------|----------------------------|--------------------------|-------------------|
| <b>ACCOUNTABILITY</b>   |                             |                            |                          |                   |
| Transparency  | yes                         | yes                        | yes                      | yes               |
| Stakeholders/Stakeholder Engagement   | yes                         | no                         | yes                      | no                |
| <b>Reporting</b>  |                             |                            |                          |                   |
| Performance related to standard   | yes                         | yes                        | yes                      | yes               |
| Environmental performance   | yes                         | no                         | yes                      | no                |
| Human rights issues   | yes                         | no                         | no                       | no                |
| <b>Monitoring/Verification</b>  |                             |                            |                          |                   |
| Performance related to standard   | yes                         | no                         | no                       | no                |
| Environmental performance   | yes                         | no                         | yes                      | no                |
| Human rights issues   | yes                         | no                         | no                       | yes               |
| <b>Standard applies to</b>  |                             |                            |                          |                   |
| Company   | yes                         | yes                        | yes                      | yes               |
| Business partners   | no                          | yes                        | yes                      | yes               |
| <b><u>Figure 5.2: CSR Issues to be Referenced (adapted from Gordon, 2001: 12-15).</u></b> |                             |                            |                          |                   |

|  | Global Reporting Initiative | Global Sullivan Principles | OECD Guidelines for MNEs | UN Global Compact |
|--|-----------------------------|----------------------------|--------------------------|-------------------|
| <b>BUSINESS CONDUCT</b>  |                             |                            |                          |                   |
| General CSR  | yes                         | no                         | yes                      | no                |
| Compliance with the law  | no                          | yes                        | yes                      | no                |
| Competitive conduct (e.g. price fixing, collusion, anti-trust) | no                          | yes                        | yes                      | no                |
| Corruption and bribery   | no                          | yes                        | yes                      | no                |
| <b>LOCAL COMMUNITY INVOLVEMENT</b>                             |                             |                            |                          |                   |
| Broad/ General reference                                       | no                          | yes                        | no                       | no                |
| Employment of local and/or under-utilised workers              | no                          | yes                        | yes                      | no                |
| <b>ENVIRONMENT</b>   |                             |                            |                          |                   |
| Broad/ General reference                                       | yes                         | yes                        | yes                      | yes               |
| Precautionary principles                                       | yes                         | no                         | yes                      | no                |
| Product life cycle   | yes                         | no                         | yes                      | no                |
| <b><u>Figure 5.2 continued.</u></b>                            |                             |                            |                          |                   |

|  | Global Reporting Initiative | Global Sullivan Principles | OECD Guidelines for MNEs | UN Global Compact |
|--|-----------------------------|----------------------------|--------------------------|-------------------|
| <b>HUMAN RIGHTS</b>                              |                             |                            |                          |                   |
| Broad/General reference                          | yes                         | yes                        | yes                      | yes               |
| Health and safety                                | yes                         | yes                        | yes                      | yes               |
| Child labour                                     | yes                         | yes                        | yes                      | yes               |
| Forced labour                                    | yes                         | yes                        | yes                      | yes               |
| Freedom of association/<br>collective bargaining | yes                         | yes                        | yes                      | yes               |
| Wages and benefits<br>(including living wage)    | yes                         | yes                        | no                       | yes               |
| Indigenous peoples' rights                       | yes                         | no                         | no                       | no                |
| Discipline                                       | no                          | yes                        | no                       | no                |
| Use of security forces                           | yes                         | no                         | no                       | yes               |
| <b>WORKPLACE/<br/>EMPLOYEES</b>                  |                             |                            |                          |                   |
| Non-discrimination                               | yes                         | yes                        | yes                      | yes               |
| Training   | yes                         | no                         | yes                      | no                |
| <b><u>Figure 5.2 continued.</u></b>              |                             |                            |                          |                   |

### **5.10.2: The UN Global Compact.**

Endorsed by BP and Royal Dutch Shell, the Global Compact<sup>92</sup> agenda is indeed limited to only a relative few stakeholder issues (Hopkins, 2004: 21). As Figure 5.2 shows, the

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<sup>92</sup> See also Appendix 1.

Global Compact scores fourth with 14 specific issue areas addressed. This therefore, could be the less voluminous initiative called for in the previous section. However, although it now demands an annual sustainability report from all its participants, there are no official guidelines regarding what information must be included in such a report, except for only recommending use of the GRI Guidelines (see below). The Global Compact does *not* enforce or even measure the behaviour of participating firms (Rasche, 2009: 200, 202), and it has further been criticised because MNCs, by endorsing it, can legitimise their actions by wrapping themselves in the UN blue flag without actually doing anything new, something that is referred to as a ‘bluewash’ (Blackett, 2001: 442).

Nevertheless, both BP and Royal Dutch Shell endorsing a voluminous initiative like the OECD Guidelines and, at the same time, an initiative like the Global Compact that is limited to only a few stakeholder issues, highlights the problem with having numerous global initiatives coming from the institutional environment level. This is that stakeholders when judging a firm’s CSR performance are confronted with a variety of initiatives to choose from to inform that judgement, which they may find confusing (Gordon, 2001: 8).

### **5.10.3: The Global Sullivan Principles.**

The review of Chevron’s reporting revealed no mention of the OECD Guidelines or the Global Compact, but long-term endorsement of the Global Sullivan Principles,<sup>93</sup> which evolved from the original Sullivan Principles.<sup>94</sup> The focus of these Sullivan Principles was social improvement, and its anti-Apartheid efforts illustrated the potential power of CSR. Firms operating in South Africa were not pressured to change their behaviour because their activities were illegal, but because they failed to meet expectations for responsible behaviour (Coombs and Holladay, 2012: 2).

In studies evaluating the effectiveness of global initiatives,<sup>95</sup> frequent reference

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<sup>93</sup> Corporations that have endorsed the Global Sullivan Principles include American Airlines, British Airways, ChevronTexaco, DaimlerChrysler, Fannie Mae, Hershey Foods, Pfizer, and Tata Industries of India (White and Taft, 2004: 475).

<sup>94</sup> See Box 5.2.

<sup>95</sup> For example, see Charnovitz, S. (1994) ‘The World Trade Organization and social issues, *Journal of World Trade*, 28 (5): 17-33; and Perez-Lopez, J. (1993) ‘Promoting international respect for worker rights through business codes of conduct, *Fordham International Law Journal*, 17 (1): 5-26.

During the 1970s and 1980s, there was one outstanding experiment in corporate initiatives for human rights, and these were the Sullivan Principles for South Africa (Cassel, 1995: 1970). Developed by Reverend Leon H. Sullivan, a Baptist Pastor in Philadelphia and General Motors board member (Hess and Dunfee, 2000: 616), these principles were initially adopted in 1977 by US firms engaging in operations in South Africa, including Chevron and General Motors itself.

Despite the fact that these original Sullivan Principles were limited to protecting human rights in one country, influenced by a desire to deflect growing calls for divestment from a country ruled by the Apartheid regime, the firms that took part adopted unprecedented, far-reaching commitments for addressing macro-level socio-economic needs. These included paying fair wages above the minimum cost of living, to provide managerial training programs for all locals (Cassel, 1995: 1970-1971), desegregated workplaces, fair employment practices, equal opportunity, and to improve the lives of workers outside the workplace (Hassel, 2008: 239). This last category involved providing employees with supportive services for housing, health care, transportation and recreation.

The major objective of the Sullivan Principles was to use corporate influence to help end South Africa's Apartheid regime. It was therefore, an initiative that was also attempting to bring about political change at the institutional environment level. However, as far-reaching as they were, by 1987 Reverend Sullivan pronounced these principles a failure as they had not ended Apartheid, and he disassociated himself from them (Cassel, 1995: 1971). Nevertheless, the Sullivan Principles are often accredited for making a contribution to the end of Apartheid (Pattberg, 2005: 600). As Hess and Dunfee (2000: 617) stress, 'even though the principles did not end Apartheid within the timeframe set by Sullivan, they fostered significant progress and were ... one of the factors that led to its abolition'.

**Box 5.2: The Sullivan Principles.**

is made to the Sullivan Principles as an example of an effective initiative. This is because these studies found it had several positive effects, particularly because firms found the Principles useful in that it provided a focus for their addressing of socio-economic needs in South Africa, and it led to increased funding by firms of social causes in South African local communities (McCrudden, 1999: 170, 177).

Reverend Sullivan, who developed the Sullivan Principles, went on to support and promote a more general set of principles: the Global Sullivan Principles.<sup>96</sup> These broader principles represent a general policy commitment by an endorsing firm to macro-level social issues, including ideals of equal opportunity and quality of life. Despite the continued focus upon macro-level socio-economic needs, the Global Sullivan Principles far exceeds its predecessor and encompasses a commitment to sustainable development (Hess and Dunfee, 2000: 618). The Global Sullivan Principles are an initiative that was devised by Sullivan and a group of MNCs with input from inter-governmental organisations, national governments; and, in particular, a broad range of NGOs (Blackett, 2001: 408). Therefore, the Global Sullivan Principles can be characterised as NGO-based guidelines (Bantekas, 2004: 346).

Figure 5.2 shows that the Global Sullivan Principles scores third with 18 specific issue areas addressed, and thus it is more prescriptive than the Global Compact but not as voluminous as the OECD Guidelines. However, one should also note in Figure 5.2 that it is the only initiative that has a broad/general reference for local community involvement, highlighting that as it evolved from the original Sullivan Principles (with its focus on social issues), perhaps the Global Sullivan Principles are (also as an NGO-based set of guidelines) more relevant than the OECD Guidelines and the Global Compact for addressing socio-economic needs at the macro-level? This will be assessed in Chapter 8.

#### **5.10.4: The Global Reporting Initiative.**

The GRI differs from the other standards compared in this review because it is a reporting standard with recommendations on what indicators companies should use in reporting social, environmental and economic performance. It does not include recommendations for specific standards of performance, policies or practices (Gordon, 2001: 12). However, when one considers that the GRI evolved from the CERES

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<sup>96</sup> See Box 5.3.

Firms that endorse the Global Sullivan Principles should:

- express their support for universal human rights and, particularly, those of their employees, the communities within which they operate, and parties with whom they do business;
- promote equal opportunity for their employees at all levels of the company with respect to issues such as colour, race, gender, age, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude, or other abuse;
- respect their employees' voluntary freedom of association;
- compensate their employees to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities;
- provide a safe and healthy workplace, protect human health and the environment, and promote sustainable development;
- promote fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes;
- work with governments and communities in which they do business to improve the quality of life in those communities – their educational, cultural, economic and social well being – and seek to provide training and opportunities for workers from disadvantaged backgrounds;
- promote the application of these principles by those with whom they do business;
- and be transparent in their implementation of these principles and provide information which demonstrates publicly their commitment to them.

**Box 5.3: The Global Sullivan Principles (Source: <http://thesullivanfoundation.org/about/global-sullivan-principles>)**

environmental principles,<sup>97</sup> it is not surprising that it is, as Hopkins (2004: 16) states, ‘a little hamstrung by environmental considerations’. BP uses professional auditors, Ernst and Young, to verify its social responsibility claims and data against the GRI guidelines (Rondinelli, 2006: 22), and as the GRI had in origins in the CERES environmental principles,<sup>98</sup> it is inevitable that BP would be preoccupied with performing, and subsequently reporting, on their environmental performance.

There is no doubt that, of these global initiatives, the GRI is the most wide-ranging. Concerning the 30 specific issue areas in Figure 5.2, the GRI scores first with 23. However, this leaves it open to criticism due to the fact that it may be too voluminous and, as a consequence, it may discourage some firms from attempting to report under all of its guidelines. This highlights the major problem with the GRI, which is that it is attempting to make CSR reports mean something to everyone, to all stakeholders, rather than allowing firms to produce their own accounts of their CSR performance. Whilst one must recognise that allowing firms to do this would not suit every stakeholder’s perceived needs, it may result in far more meaningful reports (Hopkins, 2004: 15). In fact, the GRI guidelines can be regarded as being so voluminous and inflexible that many organisations might find them irrelevant (Hess and Dunfee, 2007: 25-26), and thus, an important note here is that some firms prefer to produce their own reports that are only based on the GRI guidelines (Bantekas, 2004: 346).

In a publication by the GRI itself, Tort (2010: 12) outlined that ‘GRI reports by public agencies has ... disclosures provided by the different public agencies [that] were very diverse and predominantly narrative/descriptive, with little quantitative performance data’. This suggests that the GRI would perhaps prefer a presentation of quantitative datasets, but would external stakeholders necessarily understand such data? Therefore, to communicate sustainability, firms should develop their own sustainability narratives in an informed way, rather than adhering to a set of generic guidelines that may be too complicated and/or voluminous, resulting in reports that are difficult to

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<sup>97</sup> See Box 5.1.

<sup>98</sup> The CERES Principles committed signatories to protect the biosphere, use natural resources sustainably, conservation, reduce waste, produce safe products, publicise health or safety dangers, and other environmental goals (White and Taft, 2004: 472); and it gained so much credibility that it provided the basis for the reporting guidelines operated by the GRI (Pattberg, 2005: 599).

understand for external stakeholders. If this is indeed the solution, then this raises the question as to whether there is a need for the GRI guidelines, or whether the current GRI guidelines can be revised to embrace a more narrative approach. However, is there any evidence from the reporting under review whether the firms want to ‘tell their own story’ of sustainability practices in preference to GRI disclosures of abstract indicators? (Dumay *et al.*, 2010: 542).

Indeed, Chevron does tell their own story and only uses the GRI Guidelines ‘where appropriate’.<sup>99</sup> However, the problem with firms producing their own accounts concerning their CSR practices is that a firm might only report what it chooses to report. Within this scenario, a firm with a poor performance record in addressing environmental issues might simply highlight another area of corporate citizenship to mask these deficiencies (Williams, 2004: 762). For example, if Chevron is enjoying relative impressive performance on social issues, they could mask the fact that their performance concerning environmental issues is not so impressive. Indeed, as Rondinelli (2006: 24) reports, Chevron’s oil terminal in Escravos, Nigeria, was seized a few years ago by approximately 600 women villagers who were protesting about the degradation of the local environment resulting from the company’s operations.

### **5.11: Endorsing the principles of sustainable development.**

Despite which initiatives the firms under consideration above endorse from the global institutional environment, we saw earlier that they all, at some level, embrace the principles of sustainable development.<sup>100</sup> Sustainable development involves pursuing economic growth, environmental quality, and social equity simultaneously. Therefore, firms that are aiming for sustainability need to perform against the triple bottom line (Elkington, 1999: 397). The idea of sustainable development arose because of an increasing awareness that the planet could no longer sustain the exhaustion of its finite resources to accommodate mankind’s global drive toward continuing economic growth (Ehrenfeld, 2005: 23). As a result, the concept of sustainable development emerged in the 1980s to explore this relationship between development and the environment. In particular, sustainable development’s broad aim is to address the environmental problems caused by economic growth. What should be sustained does not appear to be

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<sup>99</sup> See Section 5.8.

<sup>100</sup> See Sections 5.7-5.9.

open to question because, as Hart (1997: 67) points out, the challenge is ‘to develop a sustainable global economy: an economy that the planet is capable of supporting indefinitely’.

Concerning BP in particular, Elkington (1999: 311) stated that ‘in moving towards sustainability and the triple bottom line, BP is now very clear about what they are aiming for. Leaders at the board level of BP are taking centre-stage and they know that they face tough challenges, but BP’s board are leaving their employees in no doubt about the directions in which they should be heading’. This further explains the importance of the board issues as outlined in Sections 5.2-5.3, with the subsequent examination of the history of BP’s board composition issues in Section 5.4. The firms under review above embrace sustainable development, and in particular BP, but precisely what is sustainable development?

Although there are many definitions of sustainable development, the one most commonly used is that of the Brundtland Commission (Banerjee, 2003: 144, 151), and this definition has been highly instrumental in developing a global view with respect to the planet’s future (Mebratu, 1998: 494). Brundtland defined sustainable development as ‘a process of change in which the exploitation of resources, direction of investments, orientation of technological development, and institutional change are made consistent with future as well as present needs’ (World Commission for Economic Development, 1987: 9).

This concern for future generations is problematic in its operationalisation though. This is because potential consumers (future generations) are unable to access the present market (Banerjee, 2003: 152). As Martinez-Alier (1987: 17) highlights, ‘individuals not yet born have ontological difficulties in making their presence felt in today’s market for exhaustible resources’. However, the main problem with the concept of sustainable development is that it has its roots in environmentalism, and consequently, there is an inherent danger that social justice is being relatively overlooked. Although the sustainable development agenda of Brundtland does also point towards social justice and human development, according to Banerjee (2003: 152), despite the primacy of social justice in the sustainability agenda, the position is often reversed. This is because, as Dobson (1998: 242) stresses, social ‘justice is looked upon as subordinate to sustainability’. Indeed, Elkington (1999: 2) highlights that the

sustainability agenda has long been understood as an attempt to harmonise the traditional financial bottom line with the environmental bottom line, whereas we should be thinking terms of the triple bottom line that also focuses on social justice, which is an element that business has tended to overlook.

In the context of its environmental focus, the major issue with the concept of sustainable development as regards this thesis is that the sustainability of local environments in developing countries is not addressed. Instead, sustainable development means the survival of the planet, and it is thus an articulation that favours notions of environmentalism from the developed world. Environmental concerns for the developed world include damage to the biosphere, for example, whereas for the developing world, especially in local rural communities, it is about maintaining control over natural resources to avoid local environmental degradation. Indeed, the so-called ‘greening’ of industry in developed countries has been achieved at the expense of developing country environments through the relocation of polluting industries to developing countries (Banerjee, 2003: 157-159), and the primary driver of local environmental degradation in the developing world, natural resource extraction, has burgeoned since the discourse on sustainable development began (Sneddon *et al*, 2006: 254). Fundamentally, the global definition of environmental problems as outlined by the developed world results in local problems for the developing world because the global agenda is set by a small number of industrialised countries who are guided by global environmental concerns (Shiva 1993: 150). Consequently, according to Banerjee (2003: 173), the concept of sustainable development includes nothing concerning the empowerment of local communities in the developing world. Empirical evidence for this will be presented in Part 3.

### **5.12: Anglo American.**

The discussion above highlighted that whilst BP does have a history of embracing social issues in developing countries (in Iran particularly) as part of their ad-hoc response in the first generation of the CSR agenda, today, as Chapter 8 will also establish, it focuses largely upon the climate change agenda because of its embracement of the concept of sustainable development. However, placing social issues higher on the agenda is arguably more applicable when investing in developing countries. Therefore, this chapter will now seek evidence of embracing social issues in a corporation that has a

significant experience of the African macro-level setting, and whether historical experience has influenced their CSR principles today.

During Apartheid, Anglo American was publicly critical of the system. However, Apartheid's opponents attacked it by claiming it was profiting greatly from the system, and in practice it was doing little to change Apartheid's social effects. Since the collapse of Apartheid, the firm has been preoccupied with protecting itself against pressures to nationalise some assets and with weakening its domination of the South African economy (Katzenellenbogen, 2003: 30). Therefore, if it was doing little to change Apartheid's social effects, is the history of the firm essentially a story of not living up to their corporate responsibilities? This question will be answered by examining the history of Anglo American to firstly, gain an insight into their corporate culture, secondly, by seeking any evidence of a history of corporate responsibility, and thirdly, by exploring their CSR principles today.

Foremost amongst the earliest so-called Randlords was Cecil Rhodes, who amalgamated South Africa's diamond mines into De Beers. Sir Ernest Oppenheimer (the company's founder)<sup>101</sup> was considered to be one of these Randlords as he conformed to the anglophile culture prevalent amongst them. However, with German Jewish descent, Sir Ernest upon starting out had to cope with the caricature that stated that many German Jewish mining owners were 'Hoggenheimer', a name derived from a London musical comedy. This production labelled a Hoggenheimer as a greedy exploiter of workers and a political manipulator. This reputation became attached to the early Randlords. Although this label was not intended to be aimed at Oppenheimer, the tag was to stick with the family and Anglo for decades.

However, despite such an obstacle, Anglo grew and prospered because at every critical point during Anglo's rise, the company and the South African state co-operated via bridging for each other's mutual survival, therefore embracing institutional environment level and micro-level interaction. Even the 1948 victory of the Afrikaner Nationalist Party, to whom the anglophile Oppenheimers were not disposed to, did not impede this co-operation in reality, despite traditional Afrikaner dislike of 'foreign' mining capitalists who they believed were trying to achieve economic power. The state realised Anglo's importance in the development of South Africa, and ensured that a

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<sup>101</sup> See Appendix 4.

cheap supply of black labour was organised. Therefore, can it be argued that the Oppenheimers were greedy exploiters of workers and political manipulators, and is the history of Anglo (operating at the micro-level) one of addressing socio-economic issues at the macro-level?

What does come across from Sir Ernest's letters and speeches is a sincere belief in racially separate housing. The Oppenheimers did share the general white view, although they tended to resist the virulent racism of a Cecil Rhodes. They did plan settled mining villages for Africans. However in 1956, a year before his death, Sir Ernest visited the south-western townships<sup>102</sup> outside Johannesburg for the first time. He was apparently shocked by the appalling living conditions there, and arranged a R3 million loan to rebuild some of the worst slums, although this final gesture of philanthropy can be seen as 'too little, too late'.

Minorco, Anglo's international investment firm, had its origins in the Zambian Copperbelt which Sir Ernest had exploited in Anglo's early days. In 1928, Sir Ernest formed Rhoanglo in London to finance the expansion of the Copperbelt in what was then Northern Rhodesia. Rhoanglo moved to Northern Rhodesia in 1954, and was renamed Zambian Anglo American (Zamanglo) upon independence in 1964 and the country being renamed Zambia. When the Zambian government took 51% of Zamanglo in 1970, it moved to Bermuda to receive compensation payments in the form of dividends from government bonds. In 1974 it was renamed Minorco and became Anglo's overseas investment flagship.

Minorco provides an insight into the actual practice of Anglo, as opposed to its rhetoric. The much-vaunted claim of Sir Ernest was that Anglo's objective was to benefit the communities in which Anglo operated. (Pallister *et al*, 1988: 48-49, 61, 65, 69, 71, 75-76, 122). This was further elaborated on by Harry, Sir Ernest's son and successor who, in 1964, stated that Anglo was 'an international group called upon and prepared to work under widely different political and social conditions ... to the mutual benefit, as we hope, of our shareholders and of the people of the countries where we operate' (Anglo American Corporation, 1990: 25). Therefore, Anglo has had a long history of considering such issues. However, has this always been the actual practice of Anglo, or just empty rhetoric?

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<sup>102</sup> The south-western townships were later called Soweto.

This indeed proves to be empty rhetoric when examining the state of Zambia at the time of independence. Copper made Zambia one of Africa's richest countries with one of the fastest growth rates in the region. However, the level of development in Zambia was extremely uneven, and Anglo was largely responsible for this. Together with the US firm American Metal Climax (AMAX), Anglo had expropriated £260 million out of Zambia in the form of dividends, interest, and royalties between 1954 and 1964. After independence, three-quarters of the profits of the two firms were sent out of Zambia in the form of dividends.

By 1968, Zambian President Kaunda declared that both firms must retain half of their profits in Zambia. In response, Anglo and AMAX increased their capital holdings and their accounting policies were readjusted to keep up dividend payments without going over the 50% profit cap. When the Zambian government responded by taking 51% of their mines in 1970, Anglo and AMAX demanded compensation, and Kaunda had to reluctantly grant generous tax concessions and freedom from exchange controls. This compensation became Minorco's start-up finance in Bermuda. Therefore, Minorco began with money fleeced from a former British African colony, and the money was deposited, suitably sanitised, in Bermuda; while Zambia itself, including the communities where Anglo operated, received little or nothing. Minorco went on to provide a launch-pad for Anglo's penetration into the USA (Pallister *et al*, 1988: 122-123).

All the time that Anglo continued to expand, African resistance to the Apartheid regime grew. Resistance was suppressed during the 1960s. However, the political and social unrest found an outlet by a series of strikes that hit South Africa in 1973. Then the Soweto rising of 1976 further served notice that the mining industry would have to deal with a broader range of issues than had previously been the case. The Wiehahn Commission recommendations in 1979 made the first changes to affect the sector by legalising African trade unions. In addition, the Commission cautiously suggested ending job reservation for whites. However, this process was delayed until 1986 because of opposition from white labour. The vast majority of mining firms stood aside at this time, believing that social and political issues should be resolved on the political scene although some cautiously encouraged change behind the scenes. However, Anglo led the way by openly welcoming the legalisation of African unions and even calling for

the end of the migrant labour system (Reichardt, 2007b: 49). Therefore, Anglo openly embraced difficult social issues in South Africa whilst their competitors did not.

Harry Oppenheimer openly and often criticised the Apartheid regime (the government at the institution environment level). However, it was widely accepted that he did not intend to attempt to change the system. Rather, he was prepared to work within it whilst pressing for social changes to improve the position of Africans primarily because it made good business sense (Katzenellenbogen, 2003: 34). This suggests a certain degree of de facto CSR. However, Pallister *et al* (1988: 84) believe that Anglo did little about difficult social issues in South Africa in reality, and indeed only embraced them to a certain extent when they were forced to do so by black militancy (socio-economic needs at the macro-level influencing Anglo's behaviour at the micro-level) and international pressure. Welcoming the legalisation of African unions could be seen in this context as merely a token gesture.

In the 1980s, Anglo was at the centre of political controversy in South Africa. This was not just because of its economic strength, but also because the Oppenheims and Anglo itself took a public stand on the Apartheid question, pressing for a relaxation of certain aspects of the system. They were particularly interested in decreasing dependence on migrant labour as they believed that a more settled, stable labour force was more productive and efficient. In 1987, Anglo began to replace migrant workers' hostels with low-cost family accommodations. However, many civil society activists saw this as too little too late, like many other changes in their view. Other commentators saw this as merely a new method of social control, as Anglo was not prepared to raise African wages high enough to allow workers effective freedom of housing choice. Perhaps the central point here is the fact that although the Oppenheims pressed for a relaxation of certain aspects of the Apartheid system, they were not in favour of black majority rule (Katzenellenbogen, 2003: 34). Indeed, Harry Oppenheimer never subscribed to the view that Apartheid was morally wrong. He viewed it as an honest attempt not to repress but to find a solution for overwhelming racial problems.

However, many believed that it was physically impossible to continually separate the races in South Africa. Anglo perhaps saw the writing on the wall in 1985 when, in Zambia, they instigated dialogue with the then banned African National Congress (ANC). This was the first step to impress on the possible future leaders of

South Africa that Anglo, in some form, was indispensable to South Africa's economic growth. If a full accommodation could not be reached with a black-governed South Africa, with the ANC, along the lines of the long-running relationship with the old white regime, the firm could always relocate its headquarters (Pallister *et al*, 1988: 83, 144). Indeed, it is interesting to note that around this time, Anglo had embarked upon a massive image-building campaign in the British press, and subsequently, in October 1998, it was announced that the company intended to move its headquarters to London (Katzenellenbogen, 2003: 34-35). Therefore, political change at the institutional environment level in South Africa influenced a strategic move for Anglo at the micro-level. The company is now more of a global concern, and being located in the UK and being subject to the Combined Code possibly represents an O advantage that has enabled them to engage in outward FDI more effectively. Nevertheless, the ad-hoc responses to social issues presented here are in line with the first generation of the CSR agenda, which brings us to how they view CSR today.

### **5.13: Anglo American: corporate responsibility today.**

Sir Ernest in 1954 stated Anglo American's long-term aim (Jones *et al*, 2007: 229). Rajak, (2006: 195) reported this aim as 'to make profits, but profits in such a way as to benefit the people and communities in which we operate'. This comment applied to the old Anglo American Corporation of South Africa. However, how does the new UK-based Anglo American address socio-economic needs at the macro-level today? In their first sustainable development report, marking the transfer to arguably both the second and third generations of the CSR agenda because firstly, they are reporting their performance in which they are

“guided by the ... Global Reporting Initiative”<sup>103</sup> (Anglo American, 2002: 2),

and secondly, as Anglo American states:

“In the spirit of Sir Ernest Oppenheimer's statement, we are committed to the principles of sustainable development”<sup>104</sup> (Anglo American, 2002: 58).

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<sup>103</sup> In addition, Anglo American “are signatories to the Global Compact” (Anglo American, 2005: 1), were “actively engaged in .... the OECD Guidelines” (Anglo American, 2009: 3), “support the ... EITI” (Anglo American, 2010: 13), and they operate “in accordance with the UK Corporate Governance Code” (Anglo American, 2011b: 14).

<sup>104</sup> See Box 5.4.

Anglo American's commitment to sustainable development involves:

- being an efficient, ethical and value creating business;
- creating meaningful employment in safe, healthy environments;
- reducing our environmental footprint and contributing to biodiversity management; innovation, technology and process improvement;
- and contributing to building more adaptable societies.

**Box 5.4: Anglo American's Approach to Sustainable Development.**

**Source: Anglo American, 2003: 4.**

The very fact that from the start of their reporting, all such publication have been called 'Sustainable Development Reports', is a testament to this commitment.<sup>105</sup>

As argued above, this may suggest that they focus upon developed world environmental issues. However, is this the case?

Before the fall of the Apartheid regime in 1994, South Africa's mining industry was confronted with a government with limited priorities, and a government that was organised hierarchically to benefit a minority. The South African government today confronts the mining sector with broader socio-economic aims. This involves passing legislation at the institutional environment level that forces firms at the micro-level to address socio-economic needs at the macro-level, instigating a climate of raised stakeholder and community expectations concerning social and environmental performance, in order to contribute to the sustainable development of South Africa (Reichardt, 2007c: 53).

Until recently in the South African mining industry, executives rarely had to worry about the environmental impacts of their operations. However, today the crucial issue revolves around the legal right to hire real estate. New South African minerals legislation in 2004 stated that natural resources are vested with the state, and to receive a mining license, a firm must have a social and environmental plan. In South Africa this

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<sup>105</sup> Furthermore, Anglo American seeks "to promote the observance of human rights in the countries where [they] operate" (Anglo American, 2004: 13), and "to engage more with government to ensure [that] funds are well spent" (Anglo American, 2007: 23).

is conceived to be all under the umbrella of sustainable development, of which Corporate Social Investment (CSI) is the key strand.

CSI for Anglo American is managed by Tshikululu Social Investments, a non-profit organisation based in Marshalltown, Johannesburg. The CEO of Tshikululu Social Investments, Margie Keeton, believes that CSI is not a concept that should be massaged into a good business symbol, because CSI is business (McKay, 2007: 61-62). However, why should a South African concern manage Anglo's CSI, a firm that is now based in London? Perhaps it is possible that since most of Anglo's operations remain in South Africa, the South African concept of CSI remains relevant in order to receive a mining license. Therefore, Anglo today does embrace wider issues in the arena of corporate responsibility, but it does recognise the importance of retaining CSI.

Today, a CEO when asked about social responsibility would rarely quote the dictum of Milton Friedman, who said that the business of business is business. Over the past ten or so years South African firms have made huge strides in becoming better corporate citizens, and nowhere is this more evident than in the mining industry. The mining sector is one of the largest employers in South Africa, and the sector's commitment to CSI was evident even before the South African Mining Charter of 2002, which was part of Section 100 of the Minerals and Petroleum Resources Development Act. The Mining Charter of 2002 was a broad-based socio-economic empowerment charter specifically designed for the mining sector.

However, mining firms had been investing in the communities in which they operate for many years. Anglo have been spending more than R50 million annually on CSI in the South African communities where their mines are located (micro-level improving the socio-economic needs at the macro-level), together with supporting complimentary campaigns such as Anglo American's nationwide HIV/Aids initiative. The Corporate Social Investment Handbook<sup>106</sup> published a survey stating that Anglo's Chairman's Fund, for seven consecutive years, has been the top CSI fund in South Africa. Since 1994 in South Africa, the Chairman's Fund has spent over R786 million (Breitenbach, 2007: 69-70). Even before then, the Chairman's Fund, mostly in the field of education (micro-level improving education at the institutional environment level),

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<sup>106</sup> The Corporate Social Investment Handbook celebrates the diverse contributions that South African businesses make in CSI (Inyathelo, 2010).

has been donating to ‘special projects’, together with more general donations for many years. This included, for example, funding the Soweto College of Education in 1978, which was the first black tertiary education institution to be opened for 30 years in the Johannesburg area (Anglo American Corporation, 1990: 31). Today, education continues to be the focus of their community engagement. As they state:

“The primary objective of Anglo American’s socio-economic development programmes in the communities associated with its operations is to help empower local people with an appropriate mix of skills [and] education” (Anglo American, 2008: 45).

Therefore, improving education at the institutional environment level is highly applicable to Africa.

#### **5.14: CSR for Anglo American.**

Anglo American directs virtually all of its CSR policies to solving concerns outside of the UK (Farnsworth, 2004: 165). Anglo American has recognised that a shift in the discourse on CSR from solely environmental concerns to also embracing, by the late 1980s to the early 1990s, broader community involvement is a business imperative for large corporate endeavours. As a firm with operations in developing countries, Anglo American believes that environmental impact assessments must also be accompanied by community involvement studies, or in other words, social issues (Bezuidenhout *et al*, 2007: 42).

However, Anglo American has a relatively long history of considering socio-economic needs. As early as the 1940s and 1950s, the old Anglo American was an important advocate of family accommodation for black workers in South Africa (Hamann and Bezuidenhout, 2007: 101). By 1976, in the wake of protests in Soweto, Anglo American, in conjunction with Rembrandt,<sup>107</sup> set up the Urban Foundation initiative in an attempt to address urban development issues in South African townships (Bezuidenhout *et al*, 2007: 19).

Anglo American’s long history of considering social issues in South Africa reflects the fact that it was initially founded as a South African concern. It is now considered to be a UK firm since moving its headquarters to London and being listed on the London Stock Exchange. Anglo American considers that the relocation to London

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<sup>107</sup> Rembrandt is a tobacco firm (Taylor, 2007: 159).

was critical, because they were then subject at the micro-level to the UK's Combined Code on Corporate Governance from the institutional environment level. Being subject to the Combined Code is seen by Anglo American as vital because of the need to internalise the costs of business, which has become a prominent element of CSR discourse.

In the mining industry, internalising externalities has been expressed in terms of safety, health, and environment (SHE). One Anglo American SHE manager expressed that the UK's corporate governance climate requires 'a formal and transparent system of internal controls to identify management risks'. Another Anglo American representative claims that good CSR 'gives the impression that you are a more secure investment in a risky environment'. Therefore, investor confidence, risk management, and brand reputation appears to be important drivers of Anglo American's CSR principles. However, how effective are these principles?

With this in mind, Anglo American appointed Karin Ireton in mid-2001. Her job title was 'Group Manager: Sustainable Development'. There were some critics that argued that this post was little more than a public relations exercise. However, Ireton was adamant that she had been given a real mandate for change, which was to include the social aspects of CSR. As part of this, during 2002, Anglo American adopted community engagement guidelines that contained the objective that by the end of 2003, over 90% of Anglo American's operations would have community engagement plans in place. However, by 2004, this objective had yet to be achieved (Hamann and Bezuidenhout, 2007: 105-109).

### **5.15: Anglo American: measuring impacts.**

Anglo American attempts to measure their corporate responsibility by the Socio-Economic Assessment Toolbox (SEAT). The objective of SEAT is to help Anglo American understand the impacts of their operations on local communities, understand the needs, priorities, and concerns of these communities, and also acknowledge the range of interested stakeholders. The SEAT process starts by profiling an operation and the communities associated with it, then the socio-economic impacts are identified and the results are shared with stakeholders. After this, management responses are developed to the issues that are raised, and then the results are reported (Jones *et al*, 2007: 235). As they state:

“SEAT has ... reminded us that a community’s perceptions are their realities and we must ensure that we address them” (Anglo American, 2006: 25).

It does not appear however, to attach a monetary valuation to physical effects (MVPE).<sup>108</sup> Without a MVPE, how much should be spent on addressing such impacts may not be clear. However, increasing community trust is an issue that cannot be calculated in a financial sense, and therefore, concentrating upon making a monetary valuation to assess firm impacts may mean that such social issues get neglected. This will be developed further in Section 8.3.

### **5.16: Discussion.**

Throughout its history BP has grappled with board composition issues. It has been a story of largely embracing the recommendation of today’s Combined Code that there should be at least three outside non-executive directors, before this recommendation even came into being. Nevertheless, this board has evolved into one that has the potential to fully embrace sustainability and the triple bottom line agenda, although the impression one gets from BP’s reporting is that the financial bottom line still dominates corporate decision-making, and therefore, its effectiveness will be assessed in Part 3.

However, such institutional environment/micro-level interaction can also occur with the micro-level having a negative influence on the institutional environment. Banerjee (2007: 147) states that corporations can benefit by avoiding or even pre-empting legislation, and indeed corporations actually lobby the institutional environment for regulation when it suits them (bridging within strategic choice analysis). Banerjee stresses that BP is guilty of lobbying for regulation when it suits them, because BP often engages in negotiation with governments for standards and regulations on climate change so that BP’s competitors cannot undercut them.

In the early years Greenway was concerned by the company not employing locals, recognising the delicate relationship that has to be maintained with host country officials. Later there was a movement towards ‘Iranianisation’ of the workforce, although when Iranians did account for the majority of the workforce, they only initially performed menial tasks. However, this was addressed by training and educating local

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<sup>108</sup> Natural resource extraction can damage local environments which can reduce property values. This highlights the fact that an environmental impact will cost someone money. As a result, a MVPE is required (OECD, 1995: 57).

Iranians. In addition, the company went on to implement a housing programme in Iran, and provided shopping, restaurant, and leisure facilities for employees and their dependents. Furthermore, the company provided health and medical services. The company learnt from experience that socio-economic needs had to be addressed, representing dynamic O advantages that have evolved over time. Therefore, despite the fact that the CSR agenda only emerged in recent times, the story of BP has been one of embracing social issues, even if only on an ad-hoc basis, long before the CSR construct came into being.

A professionalised approach to CSR emerged in the late 1990s and early 2000s with firms adopting targets and measuring their CSR performance. As Elkington (1999: 306) articulates at the time, ‘soon we will see ... businesses ... signing up for sustainability and pushing towards zero impact regarding their operations. Zero impact in this sense means zero defects, zero waste, zero pollution, and zero ethical stumbles. Whilst we know that companies like BP have no hope of reaching zero impact targets any time soon, their movement towards sustainable development will depend upon their willingness to set tough targets and year after year, moving towards meeting them’. Central to this emergence of this second generation of the CSR agenda, evolving as it did from its earlier ad-hoc basis, is reporting CSR performance. However, as Rondinelli (2006: 23) states, one criticism of what have become increasingly slick, glossy reports on CSR is that they are public relations exercises that do not reflect what firms actually do. More importantly, according to Rondinelli, producing reports has little impact upon how firms behave, especially when faced with a competitive challenge such as a new entrant into the market. This will be assessed in Chapter 9.

Although the transfer to the third generation, involving full adherence to the broad principles of sustainable development, may seem to overlap with the second generation, this transfer to the third generation coincides with firm embracement of the GRI which may point firms in the direction of developed world notions of environmentalism. Therefore, as Robinson (2004: 376) asks, is the concept of sustainable development, with its developed world notion of environmentalism, distracting researchers from the real problems and potential solutions by focussing attention on the wrong issues? This question depends upon whether one’s concerns are primarily environmental or social, but in the context of this thesis, it is the

developmental needs of Africa, which are primarily social and with a developing world notion of environmentalism. The problem here is that the triple bottom line approach separates the social bottom line from the environmental bottom line. However, the social bottom line clearly encompasses environmental issues as one of its many other considerations (Hopkins, 2004: 16). Furthermore, the initiatives from the global institutional environment have enormous potential for influencing firm behaviour, especially when one considers the impact of the original Sullivan Principles (Ruggie, 2002: 28). This will all be explored and assessed Part 3, particularly Chapter 8.

At every critical point during Anglo's rise, the Oppenheims and the South African state co-operated for each other's mutual survival. The state realised Anglo's importance in the development of South Africa, and ensured that a cheap supply of black labour was organised. However, as a firm with significant experience of the African setting, is the history of Anglo one of addressing socio-economic issues?

If Anglo benefited the communities in which they operated, as they claimed, why did Anglo expropriate £260 million out of Zambia when the local Zambian communities where Anglo operated received little or nothing? Nevertheless, Anglo led the way by openly welcoming the legalisation of African unions and calling for the end of the migrant labour system, embracing difficult social issues whilst their competitors did not. However, in reality Anglo did little about difficult social issues, and only embraced them when they were forced to do so by black militancy and international pressure.

Today, the South African government confronts the mining sector with broad socio-economic aims, in order to contribute to the economic development of the country. Following the minerals legislation of 2004 a firm must have a social and environmental plan to receive a license to operate. This is embraced within the concept of sustainable development for which CSI is considered vital. However, Jones *et al* (2007: 233) believe that when one considers Anglo American's stated commitment to sustainable development, one must wonder why only 2% of Anglo American's CSI is spent on environmental projects. Although this figure may reflect the extent to which spending on the environment has become integrated into Anglo American's daily business operations, only spending 2% of CSI expenditure on the environment highlights the importance of social issues for Anglo American which may be influenced

by their extensive learnt experience of the African setting. Indeed, Anglo American was quick to recognise that the shift in the discourse on CSR from solely environmental concerns to also embracing social issues is imperative for large corporate endeavours.

CSI is still managed for the company by a South African-based organisation, and this is significant because BP, in comparison, has never outsourced its corporate responsibility to organisations based in host nations. If BP did, then perhaps their corporate responsibility could be more applicable to the localities of their operations. Indeed, Anglo recognises the importance of retaining CSI since most of their operations remain in South Africa and the neighbouring countries. Consequently, CSI can be seen as applicable to the African setting. They have spent generously on CSI in the South African communities where they operate and supported complimentary campaigns such as a HIV/Aids initiative, and their Chairman's Fund has been donating to special projects for many years, mostly in the field of education.<sup>109</sup> Therefore, the lesson that can be learnt from this study of Anglo American is that it is reasonable to assume that placing social issues high on the agenda is applicable to the African setting, and that education is a highly relevant social project to invest in throughout Africa.<sup>110</sup> The implications of this will be considered in Part 3.

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<sup>109</sup> Indeed, Crane *et al* (2008b: 266) report that throughout Africa, Anglo American annually distributes US\$10 million via its Chairman's Fund, and that more than half of this figure goes on education.

<sup>110</sup> Aim 2 in Section 1.1.

# **Chapter 6: China as the new entrants: how they will behave.**

## **6.1: Introduction.**

Attention in this thesis will now turn to the new entrants in the institutional regime, China, and assessing the status of the Chinese competitors in order to discover whether the Chinese firms are likely to enter the market as a distinct entity which provides a new competitive dynamic that BP has to deal with. This will be done by exploring the wider corporate governance agenda because, as outlined in Chapter 4, CSR and corporate governance are linked, and as Sinopec state:

“Corporate governance is the important bedrock supporting Sinopec’s sustainable development. We strive to improve corporate governance to protect and balance the interests of shareholders, clients, employees, the society and other stakeholders. Improved corporate governance allows the company to make rational decision-making, mitigate risks, achieve operational excellence and sustainable development” (Sinopec, 2010: 10).

Davis (2005: 43) believes that contemporary research should analyse corporate governance in terms of the dynamics of institutions, that is, how institutions originated, their operation, and how they have evolved beyond their original purposes. In this respect, China offers a novel context for researching corporate governance. State institutions continue to have a relatively significant influence on firms in China and obviously, such an institutional difference in comparison to the West affects corporate governance development and reform. Therefore, by examining the interplay between firms, state institutions, and legal codes and frameworks (Rajagopalan and Zhang, 2008: 64), one can contribute to a robust institutional perspective of corporate governance (Davis, 2005: 153).

This chapter will begin by drawing upon the work of Goetzmann and Köll (2005) to develop the idea that today’s corporate governance is influenced by the past. The study of historical evolution is important to understand how institutions and organisations implement practices today. In order to do this, co-evolutionary path dependent analysis<sup>111</sup> can be used to discover how sequences of events throughout

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<sup>111</sup> See section 2.3

history have shaped today. A basic type of path-dependent analysis, involving reactive sequences of actions, highlights that events within a sequence are a reaction to, or a recreation of, what has occurred previously. Consequently, analysing the long-term evolutionary history of corporations in China as a sequence of events can provide an understanding of China's corporate governance. This study of the interplay between the institutional environment level and the micro-level shows that many enterprises within China have historically embraced Western influence and adapted them for their own purposes.

Rajagopalan and Zhang (2008: 64) believe that a deep understanding of the historical evolution of corporate governance rules, laws, and regulations, and the location-specific challenges of the case to be studied would permit a researcher to identify more appropriate research questions. Sections 6.2-6.6 of this chapter will therefore consider the historical evolution of corporate governance in China. It will consider the early adoption of the corporate form and institutional environment level legislation prior to 1949. This will be achieved by, firstly, considering the China Merchants' Steamship Navigation Company and how this firm at the micro-level coped with state patronage and changes at the institutional environment level. Secondly, the case of Liu Hongsheng will be analysed to see how Chinese entrepreneurs embraced Western ideas at the micro-level when they were subject to them, and adapted them to the Chinese business environment. This will include his involvement in coal mining and distribution in order to align with the extractive industry sector focus of this thesis. Thirdly, legislation at the institutional environment level will be detailed in an attempt to discover how this influenced the micro-level.

In order to bring this discussion up to date, the re-emergence of the corporate form and legislation today will then be analysed in depth to discover whether what is occurring today is a reaction to, or a recreation of, what has occurred previously. In particular, evidence from the reporting of the Chinese firms operating in Angola, namely CNOOC and Sinopec, will be examined to assess their embracement of initiatives from the global institutional environment, together with how today's Chinese national institutional environment influences how these firms are likely to behave when they invest in Angola prior to examining their impact in Chapter 9.

## **6.2: Chinese corporate governance: background.**

Prior to the modern industrial age, China's economy was a world leader for a considerable amount of time. By the 17th century however, China had ceased to be innovative and vigorous so that by the 1800s, China was well behind the Western economic powers. This economic stagnation at the end of China's feudal system can be linked to the non-development of corporations at the time. Therefore, by the late 19th century, Chinese intellectuals began to introduce corporate concepts into China, promoting the adoption of a corporate system by attributing the rise of the West to the practice of corporate activities. In addition, some Qing officials at the time had the desire of industrialising China by corporate activities, and subsequently, the earliest Chinese corporations were established and ultimately, the first Chinese Company Law was passed in 1904.

From then until 1949, the concept of a business corporation and the accompanying notions of legal personality and limited liability developed significance in China. However, corporate practice did not develop well at that time. The causes for this included social instability, a weak economic development structure, political corruption and foreign economic and military dominance. In addition, there was a significant gap between the Western corporate experience and Chinese culture. China adopted the corporate system from the West by establishing it in law. However, in reality, the Chinese dealt with corporate matters in their own way. Abuses of power by directors and managers, the impotence of shareholders' meetings, and the malfunction of the stock markets at the time highlights the fact that legal acceptance does not amount to social acceptance (Wei, 2002: 99-100).

## **6.3: Early business institutions in China: state governance through patronage and sponsorship.**

Napoleon Bonaparte referred to China as a 'sleeping dragon'. However, when one looks at the recent developments in China, it can be concluded that nowadays the dragon is awake (Braendle *et al*, 2005: 390). In recent years China's market liberalisation and enterprise reforms have brought high economic growth and privatisation initiatives. After decades of socialist economic policies controlling production via SOEs, China is now experimenting with corporate enterprise, firstly, by issuing minority share ownership in SOEs and creating stock markets, secondly and more recently, by

developing legal and regulatory frameworks that seek to protect shareholder rights and promote managerial responsibility.

What continues to distinguish modern Chinese corporations from their Western, and particularly Anglo-Saxon counterparts is that they preserve a joint public-private ownership structure that also characterised China's first large-scale firms before the People's Republic was founded in 1949. Consequently, one potentially useful comparative model for today's capitalism with Chinese characteristics is China's creation and adoption of its own code of corporate governance prior to the founding of the People's Republic. Prior to 1949, some of China's most important enterprises were structured as public-private partnerships that were financed partly by equity capital and governed under the auspices of state oversight. In addition, before the founding of the People's Republic a Western-style corporate code was adopted which had limited but instructive effects. Analysing the history of corporate ownership in China illustrates not only the economic and political conditions in which Chinese corporate governance originated, but how corporate governance responds to regulatory innovation in China (Goetzmann and Köll, 2005: 149-150). Therefore, studying the historical evolution of corporate governance in China provides insights for how the Chinese firms engaging in operations in Africa have evolved in relation to regulatory innovation.

Apart from a few state-controlled monopolies in salt, silk and porcelain production, the extended family business was the predominant form of business institution in China until the late nineteenth century. Although family business institutions were quite substantial and financially successful, the Chinese imperial government, preferring to retain some control, did not allow private business to engage in large-scale industrial production.

This attitude changed at the end of the nineteenth century, and the introduction of the Company Law from the institutional environment level in 1904 to create a framework for modern, Western-style limited liability corporations at the micro-level can be interpreted as the imperial government's belated response to the then ever-increasing competition from foreign enterprises in China. The new corporate structures were based on Western business models and contrasted with existing managerial and financial structures previously influenced by kinship networks and state patronage.

Then, as today, China imitated Western corporate governance without fully installing all of the essential structures and features. However, this first corporate code did contain many elements of the modern formula for privatisation. This includes requirements for transparency, the separation of ownership from control, and annual auditing and reporting.

During the Ming (1368–1644) and Qing (1644–1911) dynasties, prior to the introduction of the first Company Law in 1904 and the founding of the Chinese Republic in 1911, private household businesses were the main institutions for domestic private economic activities in China, and many of these were of substantial size and scope. Extended family businesses have a long tradition in China and have been highly successful in producing and/or distributing commercial goods, particularly long-distance trade. However, the largest and most successful of these enterprises relied upon some form of state sponsorship (Goetzmann and Köll, 2005: 150-152).

For example, in the late seventeenth and eighteenth centuries, the Tianjin salt merchants benefited from the nurturing policies of the Qing government. These included deferment and extensions of tax payments, salt price adjustments that responded to fluctuations in the exchange rate, deposits and loans with the Imperial Household Department, and administrative measures that countered salt smuggling. However, as these merchant businesses depended upon state patronage, they were forced to stay in good favour with the state by contributing large sums to military campaigns and making huge donations to public and imperial projects (Kwan, 2001: 37-45).

Large private enterprises for the industrial production of the gas and brine wells for salt production, operated by merchants in Zigong, Sichuan province, were an exception among business institutions in nineteenth-century China. The state interacted with these contract-based unlimited liability shareholding companies only through taxation and market regulation. The state did not interfere in their business organisation and/or management structures (Zelin, 2005: 1-3).

Nevertheless, the absence of a law of limited liability and a law of bankruptcy had an increasingly negative impact on the expansion of these businesses by the end of

the nineteenth century. Therefore, only changes in business law, which came about first in the Treaty Ports<sup>112</sup> and then in 1904 in the rest of China, were conducive to the incorporation of the private business institutions.

Foreign corporate enterprise had been developing vigorously in Chinese treaty ports during the late nineteenth century. Shares of foreign registered corporations engaging in operations in China began trading on the Shanghai Stock Exchange in the 1860s, and this exchange served as a conduit for domestic and foreign investment in China for the next seventy years. Chinese domestic corporations were not allowed to trade on this colonial stock exchange. However, the evolution of a domestic Chinese corporate code must be considered against this backdrop of colonial business because colonial business was regarded by the Qing government as a foreign competitor to domestic business. Furthermore, colonial business ideas were eventually developed as a useful structure for adaptation to China's own purposes.

Although there is a good deal of agreement that China, before Western influence, possessed the seeds of a long-distance/interregional banking system, experience with large business institutions, the capacity to plan and execute large infrastructure improvements, and countless manufacturing and mercantile entrepreneurs whose business ventures were extensive; the adoption of a Western-style corporate code in 1904 is best thought of as foreign financial and managerial technology being adapted to Chinese business needs. The term 'technology' is appropriate here because the early champions of adopting Western-style corporatism in China, as those discussed below, considered it to be a tool to advance the goal of improving China's social and economic well-being, and not as a means of 'Westernisation' and/or convergence to foreign practices. Indeed, the adaptation process began well before the formal introduction of the 1904 corporate code, and these processes were motivated by a sense of competition with the West, rather than a sense of imitation.

The first attempts to build large-scale industrial enterprises based upon the Western model were undertaken after the end of the Taiping Rebellion in 1864. In the wake of this civil war, which lasted for fourteen years and resulted in catastrophic economic consequences, the Qing government's central political authority and fiscal

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<sup>112</sup> The Treaty Ports came into being following the 1842 Treaty of Nanjing. Subsequently, China conducted its international economic transactions via a system that was characterised by legal extraterritoriality. The Treaty Ports were designated locations for foreign trade (Cox and Chan, 2000: 95).

stability was weakened. Subsequent political debates about the weak national economy, together with fears of foreign economic and political aggression, led to moderate attempts at reform which manifested themselves as adaptation processes.

The Qing government maintained some control over this early adaptation, since any industrial enterprise founded before 1895 not only required sanction or permission from the government, but in addition, the government gave active supervision and sponsorship. During the 1860s and 1870s, examples of this government sponsored promotion from the institutional environment level of industrial enterprise at the micro-level included the China Merchants' Steamship Navigation Company in Shanghai, and the Kaiping Coal Mines near Tianjin as discussed below (Goetzmann and Köll, 2005: 152-154).

#### **6.4: The China Merchants' Steamship Navigation Company.**

The China Merchants' Steamship Navigation Company (CMSNC) was formed in 1857 from a business proposal by a Yale graduate, Yung Wing, one of many Chinese students sent to study abroad to embrace foreign ideas. He drew upon his studies at Yale to propose innovations. The concept of beating the West at its own game was present in Wing's conception (Feuerwerker, 1958: 97). This suggests that the policy of the Qing government at the time had parallels with that of Japan during the Meiji restoration. Japan also conducted the pursuance of wealth through the adaption of Western technology (Beasley, 1972: 316). Therefore, adapting Western-style corporate practices to government-controlled enterprise can be seen not a means of Westernisation but a tool to improve the economic well-being of China. No foreigners were allowed to hold stock in the company. It was a purely Chinese-owned company, exclusively managed and worked by Chinese. The company went on to compete effectively with Western shipping firms in Shanghai (Feuerwerker, 1958: 97).

To stress their close relationship with the government's agenda, new industrial enterprises such as the CMSNC were joint-stock companies, partly funded by the issuance of shares to Chinese merchants, but they were controlled and nurtured by the government (Goetzmann and Köll, 2005: 155). Therefore, they were in effect, economic agents of the Qing government, just like large SOEs in the China of today. Between 1872 and 1884 the operational management of the company was in the hands of Chinese merchants, and the company enjoyed government support in the form of

subsidies. As a result of this arrangement, the company prospered. However, from 1885 government interference in the management of the company increased, which actually caused it to fail (Lai, 1996: 99). Nevertheless, this early example does highlight the fact that if a firm is nurtured by the government, but the management can enjoy sufficient autonomy, then a firm can be successful.

The CMSNC had enjoyed the personal patronage of Li Hongzhang, an influential official of the Qing government. Initially, Li Hongzhang's sponsorship secured sufficient financial support and merchant management autonomy. It was only when Li Hongzhang was unable to prevent the government from assuming more direct management control that the company encountered problems. Mismanagement and misappropriation of funds inevitably resulted from the government's increased intervention in the company, which led to decreased merchant investment. Many such government sponsored firms suffered from a lack of auditing procedures and a tendency to equate private and company funds. However, the concept of private merchant investment had been established, and as a result, introducing the 1904 Company Law was not intended to promote shareholding as this was already a familiar concept. Its introduction was to establish limited liability in legal terms in order to make firms more attractive to Chinese investors (Goetzmann and Köll, 2005: 158-161).

### **6.5: Early business institutions in China: Liu Hongsheng adapting Western business practices.**

Morgan (2003: 1-2, 6-7, 12) believes that most writers on Chinese management 'have a kind of historical amnesia'. Both Western and Chinese contemporary scholars write as though they were unaware of the experience of management practice in the inter-war years. The experience of this period includes the adaptation of Western management practice in a Chinese business environment that was not so dissimilar from today.

The leading management theory of the time was scientific management, or Taylorism, based on the ideas of Fredrick W. Taylor (1856-1915). Chinese industrialists, government officials, and business academics embraced the ideas of scientific management for the advancement of China. The Minister for Industry and Commerce Kong Xiangxi in the Kuomintang government of the time convened a meeting of Shanghai industrialists in May 1930 who had agreed to become co-sponsors of a Chinese Industry and Commerce Management Association (CICMA). Kong

Xiangxi's speech at the meeting called for the promotion of scientific management to overcome the problems of China's inadequacies in management, technical skill, and organisation.

The CICMA founding conference elected a 15-member board of directors, chaired by Kong Xiangxi, which included a powerful businessman of inter-war China, Liu Hongsheng. The aims of CICMA were, firstly, to collect research materials on scientific management, and secondly, to discuss, publish, and put into practice methods to improve Chinese management. Essentially, CICMA was concerned with how ideas about managerial and organisational forms could be received from abroad and adapted to Chinese businesses. An entrepreneur-manager such as Liu Hongsheng had embraced ideas concerning Western organisational and accounting systems as a comprador<sup>113</sup> with a British firm, and had adapted them to his own businesses. Therefore, Liu Hongsheng was a key board member because management knowledge cannot be readily transferred across firms within a single country, let alone from a developed economy to a developing economy such as China, and his experience of transferring Western management technology to the Chinese business environment was vital.

Initially, compradors acted as house stewards for Western agency houses in the Treaty Ports, with the responsibility of procuring day-to-day necessities and managing the Chinese staff. Compradors went on to provide financial services, and to engage in up-country purchasing. In addition, they acted as interpreters, gave market intelligence, found customers, and engaged with the Chinese authorities with whom they were usually closely connected (Cox and Chan, 2000: 96- 97). Therefore, in essence, the comprador acted as an economic intermediary between the foreign firms and the Chinese economy.

By the 1890s however, the compradors had almost ceased to act as a bridge, and had become more of a barrier to entry to the Chinese market by pinning foreign firms to the Treaty Ports (Hao, 1970: 11-12). One British firm that wanted to expand in China without depending upon their earlier compatriots' reliance upon compradors was the Kailan Mining Administration (KMA)<sup>114</sup> (Cox and Chan, 2000: 100). The reason for

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<sup>113</sup> The term comprador was derived from the Portuguese 'compradore', a word given to Chinese servants in Canton and Macao who provided provisions for foreign merchants (Cox and Chan, 2000: 95).

<sup>114</sup> The British formed KMA in 1912, to be under their control, to mine and sell coal (Wright, 1984: 123).

not wanting to rely too much upon their comprador is that KMA became suspicious about the other activities that he was engaged with.

Liu Hongsheng became the comprador for KMA. In addition to his role of comprador, just like other compradores, he also ran his own businesses. These included coal distribution and wharf operations that were linked to coal distribution. Liu Hongsheng used his position as comprador to further his own business interests and to learn about modern business. In particular, he used his financial responsibility with KMA to develop his business acumen. He went on to establish firms and engage in activities that were in direct competition with KMA, and this was largely done without KMA's consent. In addition, he was able to learn about the corporate form of British enterprises and adapted the corporate form in his own businesses (Chan, 2006: 49, 51, 75-76). Therefore, Liu Hongsheng learnt about and then adapted Western-style corporate practices to his own business activities.

#### **6.6: The Chinese Company Legislation of 1904.**

Based upon Japanese and English company laws, China's first Company Law was issued by the newly created Ministry of Commerce on January 21, 1904. The intention of this code was to define the terms of Chinese corporate enterprise and to create an improved legal environment to encourage private investment, leading to greater economic well-being for China. Such a late appearance of business legislation could be seen as a lack of clear definitions of property rights and their enforcement by the state. However, this is a misinterpretation since China has had a widespread use of informal contracts in its business culture for centuries which performed the role of defining property rights. In addition, China in fact did not lag too far behind Western legal corporate reform. For example, the UK's institutional environment only codified limited liability in 1862 with the passing of the Companies Act.

By the 1870s and 1880s, the Western corporate model itself was evolving in order to address the challenges of international investment and business enterprise. British firms had been trading as early as 1866 on the Shanghai Stock Exchange, suggesting that China was being exposed quite early to the evolving financial technology of British-style corporate capitalism. Rather than continuing with a laissez-faire approach of allowing continued firm level adaptation under state patronage and a hands-on inclusion of government officials in the governance structure, such as the

government assuming more direct control of the CMSNC, the code was hands-off. It eliminated the direct participation of the government by introducing a set of external rules and structures to make corporations responsive to shareholders. It also attempted to encourage the establishment of Chinese corporations, modelled upon Western corporate structures that could compete with foreign firms operating in China.

The 1904 Company Law contained 131 articles in eleven sections. It stipulated issues such as organisational forms of firms, ways to report a firm's founding, business management methods, and shareholder rights. For example, the code stipulated that the board of directors should be elected at a general meeting of shareholders. In addition, shareholders also had the right to pass resolutions at general meetings. Firms in the form of partnerships with unlimited or limited liability, joint-stock companies with unlimited or limited liability, and sole proprietorships with unlimited liability were allowed to register with the Chinese government according to the code (Goetzmann and Köll, 2005: 162-163). According to Chan (1977: 180-82) 272 firms registered with the Chinese government between 1904 and 1908 in response to the issuance of the code, and over half of these were joint-stock companies with limited liability.

The Qing government took a back seat in the registration process. According to the code, businessmen had to register their firms with the local chamber of commerce who, in turn, forwarded the registration to the central government. This practice was abolished when the code was revised in 1914 after the republican government came to power in 1911. The 1914 revision stipulated that registration had to take place directly with the central government.

Concerning financial transparency and control, the code did reform the process of creating and controlling accounts in Chinese firms. According to stipulations in the code, corporations had to produce detailed company reports at least once a year. These reports had to contain a profit and loss statement, a written statement on the firm's commercial situation, the exact loss or profit figures, amounts paid out as dividends and set aside for reserves, and a balance of the firm's assets and liabilities. Most firms did comply with these basic formal requirements in annual company reports. However, the code contained no stipulations on the way company accounts should be compiled and recorded, whilst the regulations for annual financial statements were too brief. Not even the revised code of 1914 contained any specifications for standardised bookkeeping in

the company accounting section. Therefore, the code called for an annual company report but no uniform system for accounting. Modern, Western-style bookkeeping methods only found their way into China in the 1930s (Goetzmann and Köll, 2005: 164, 169-170).

Kirby (1995: 48) considered that because the code did not introduce a uniform system for accounting, and the fact that only a relatively small number of Chinese firms actually registered with the government, meant that the code had a limited impact upon the development of Chinese firms at the micro-level. In addition, of those firms registered as stockholding companies with limited liability, only a few were large and evolved into sustainable businesses. Nevertheless, of the firms that actually did register, the expectation that incorporation would make the firm more attractive to potential investors was a key incentive for registration. Goetzmann and Köll (2005: 165, 171) suggest this in their consideration of the Dasheng cotton mills. Zhang Jian was a famous scholar with government service experience who was invited to found and manage the Dasheng cotton mills. Zhang Jian registered the No. 2 branch Dasheng cotton mill in Chongming with the Ministry of Commerce in 1905, two years before the mill would be ready to operate. Goetzmann and Köll point out that Zhang Jian was keen to have all of his industrial interests registered with the government, and they believe that he expected that incorporation would make the Dasheng cotton mills more attractive to potential investors.

#### **6.6.1: The limited effect of the 1904 code.**

The 1904 code clearly brought Chinese business arrangements more in line with established Western corporate practice. It created limited liability and attempted to enact transparency and accounting requirements to protect the rights of shareholders. In many respects, it resembles corporate governance legislation that is being adopted in today's emerging markets. Then, just like today, the intention was to create a capital market to support the development of Chinese industry, and in this context, the 1904 code can be regarded as a visionary document (Goetzmann and Köll, 2005: 176). However, the 1904 code, legislation at the institutional environment level, had a limited effect upon the micro-level.

Hamilton (1996: 43, 53-54) offers a cultural explanation for this limited effect, by claiming that scholars have argued that 'kinship and collegiality in China play roles

... played by law and individuality in the West', suggesting that Chinese family business and networking play more important roles in China than any legislation could. Indeed, as Hamilton points out, there is a correlation between increased economic opportunities in China with a simultaneous expansion of networks.

Goetzmann and Köll (2005: 176-178) offer an institutional explanation. Adopting a Western-style corporate code in 1904 represents embracing a top-down approach, with 'the visible hand of the state' attempting to create a robust corporate sector whilst overlooking the public capital markets as a key disciplinary institution for corporate managers. In addition, they argue that the 1904 code was not accompanied by an appropriate regulatory framework.

Goetzmann and Köll also offer a historical explanation. At this time the Chinese capital markets suffered boom and bust cycles. Stock market crashes in 1883 and 1922 eroded investor confidence and can be seen, in the eyes of Goetzmann and Köll, as 'accidents of history'. Goetzmann and Köll question whether the visible hand of the state in China today will succeed in creating structures of capitalist ownership with greater success than it did prior to the founding of the People's Republic. Today, although there is still a lack of supporting regulatory institutions, appropriate legislation is being introduced, and the state nurtures large SOEs in key sectors. So long as these large SOEs continue to enjoy state patronage and still be granted management autonomy, then the example of the early years of the CMSNC, enjoying state patronage but granted management autonomy, suggests that they will be successful.

#### **6.6.2: The importance of a legal system.**

Allen (2005: 174) states that one of the themes of much of the literature on corporate governance is the importance of having an effective legal system at the institutional environment level. China however, provides an example where the legal system does not appear to play an important role. China's legal system today is significantly underdeveloped in comparison to other countries, and corporate governance, accounting standards, and investor protection systems are poor at best, while the banking system is not well developed and is to a large degree inefficient.

The Shanghai Stock Exchange and Shenzhen Stock Exchange have grown very fast since their foundation in 1990, or in the case of Shanghai, reforming. Whilst these stock exchanges have attracted a lot of attention from both investors and researchers,

their scale and importance are still not comparable to other channels of financing, in particular the banking sector. How can, Allen asks, the poor status of China's legal and financial systems be reconciled with China's spectacular economic growth since 1979? Allen concludes that there are very effective non-standard mechanisms to support the financing and growth of China's economy. One of the most important mechanisms that drive good management and corporate governance is competition. Competition appears a particularly important factor driving corporate governance in China. In many industries there is ferocious competition from both domestic and foreign firms.

Another form of effective governance is family-run firms, as it has been shown that these firms emerge as the dominant form of ownership structure in countries with weak minority shareholder protections. Many of China's successful private-sector firms have a very high fraction of the firm's stake owned by their founders and executives, and these have performed very well. A final very important factor is reputation and trust. Greif (1989: 881-882) argues that certain traders' organisations, such as the Maghribi Traders in the eleventh century, were able to overcome problems of asymmetric information and the lack of legal and contract enforcement mechanisms because they had developed institutions based on reputation, implicit contractual relations, and coalitions.<sup>115</sup> Certain aspects of the growth of these institutions resemble what works in China today. For example, a managerial reputation effect can replace governance in an initial public offering firm.

There is an historical example to illustrate that the legal system may be secondary compared to other factors, such as reputation and trust, and this is provided by the UK. In the nineteenth century and first half of the twentieth century minority shareholders in the UK had very little legal protection. However, this did not prevent the development of large and successful securities markets. Strong legal protections were finally introduced in the middle of the twentieth century, and this did not alter the rate of equity issuance and the dispersion of ownership. In other words, the protection of minority shareholders did not affect these two factors at all, and trust and reputation could be largely responsible for this (Allen, 2005: 174-175).

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<sup>115</sup> See section 3.11.2.

## **6.7: Chinese government interference in the corporate governance of the early corporation and SOEs.**

A major feature of Chinese corporate development immediately prior to the founding of the People's Republic in 1949 was that the state at the institutional environment level often interfered in corporate practice at the micro-level. There were businessmen who tried to get the government's protection by inviting the state to supervise their firms. As a result, firms that were invested in by businessmen but managed by the government were commonplace. State capitalism was promoted by the Kuomintang government, to restrict private enterprise in important economic sectors such as banking, the railways, and the utilities. Consequently, state monopoly nurtured what was regarded as the most corrupt government in the world at that time, resulting in disastrous consequences for China's economy. Government officials used their control of firms to make personal gains, by misappropriating public assets and creating their own personal shareholdings, and in addition, these firms were burdened by excessive bureaucracy. The state monopoly severely undermined the healthy development of a Chinese corporate system, serving as a lesson for today's reforms in China (Wei, 2002: 100-101).

Concerning government interference in the corporate governance of SOEs, McNally (2002: 92-93, 111) wrote that most analyses of governance failures in China's state sector focus upon administrative interference by state institutions, and that 'no detailed analysis of Communist Party institutions in the governance of Chinese SOEs has been conducted'. Centrally planned economies, including China, had historically integrated the entire economic system within two parallel hierarchies, which are the economic management bureaucracy and the Communist Party's nomenklatura, an elite subset. Of the two hierarchies, the nomenklatura took precedence. The Party acted as the central monitoring agency, collecting information about economic actors and controlling their behaviour. With the introduction of market reforms the decentralisation of decision-making became necessary and consequently, the Party's economic monitoring and control functions became dysfunctional, hindering fundamental corporate governance reforms. Therefore, the Party's continued exercise of authority over state sector executives negatively impacted three aspects of corporate governance, namely personnel management, corporate decision-making, and corporate transparency. In researching this however, McNally found that whilst continued state authority had

negative effects on such day-to-day corporate governance aspects in the state sector as a whole, the Chinese state was extremely capable of effectively managing a small number of high-profile corporations in relation to these three aspects of corporate governance, such as the national champion energy concerns active today in Africa.

### **6.8: Modern Chinese corporate governance.**

There are two evolutionary stages of government control in corporate governance in China. The first stage is between 1979 and 1993, and the second stage began in 1994. Both stages are characterised by significant political continuity between them. At the beginning of China's economic reform in 1978, the country operated a centrally planned economy in which state ownership in the non-agriculture sector was complete. Private ownership of the means of production was completely prohibited. In the first stage of the evolution of government control in corporate governance over the next fifteen years, privatisation of SOEs was delayed. In fact, the state sector expanded in size in terms of assets, investment, employment, and output. As a result, state control in corporate governance did not decrease, but increased due to the increased size of the SOEs. In the second stage, the development of the relationship between the Chinese government and business took a new direction. Small- and medium-sized private enterprises emerged as a new engine of growth when many of these were privatised. Privatisation in China was not driven by ideology or a political agenda, but by economic and financial reality. Large-sized SOEs in vital sectors were not privatised, and began to be nurtured by the government. This policy at this second stage of 'grasping the large and releasing the small' to transform SOEs was slow between 1994 and 1998 and produced little results up to 1998 (Qian, 2000: 6-10).

Preparations for entry into the World Trade Organisation (WTO) in 2001 prompted China to improve its competitiveness. WTO entry became a major factor that pushed China to reform large SOEs (Saich, 2004: 85). The Chinese government, in late 1998, ordered all Communist party and government administrative organs to cut their direct links with the firms they controlled, in order to increase management autonomy (Tenev and Zhang, 2002: 23). This policy of corporatisation of large SOEs continued to develop management autonomy. Following on from this, the September 1999 decision on SOE reform introduced three major new policies:

- to readjust the layout of the state economy to narrow its scope,

- to diversify the ownership structure for firms for whom the state wishes to maintain control,
- to establish effective corporate governance according to international standards.

In the light of this, developments followed such as the China Securities Regulatory Commission (CSRC) publishing regulations on selling state shares (Qian, 2000: 10).

### **6.9: Government control in Chinese corporate governance.**

The explosive growth of small privatised enterprises is often credited for the rapid economic development that has occurred in China recently. However, it is more, as Nolan (2001: 16) argues, the large firms that have remained in state hands that have played the key role in China's economic development. The economic policy to 'grasp the large, let go of the small' shows the determination of the Chinese government to create and nurture, through direct control, large corporations to enable them to compete globally. Therefore, small SOEs have been privatised, while the privatisation of large SOEs has been delayed.

However, in China, one now has two kinds of large SOEs. Firstly, there is what can only be described as a set of rather problematic SOEs, who have not yet been privatised despite the fact that their future now rests upon their performance. Redding and Witt (2006: 14, 25) believe that these, perhaps what must be described as 'old-style SOEs', will decline or even fail. They point out that these firms are hampered by the lack of institutions, and overcapacity is endemic. Secondly, on the other hand, there are large SOEs that have been selected as 'national champions'. They have been specifically chosen and are being prepared for global competitiveness. In contrast to the old-style SOEs, the national champions are protected, and it is easy to perform well when protected. Therefore, for the large SOEs, the Chinese government continues to be the major shareholder.

On purely economic grounds, there are a number of sound reasons for delaying the privatisation of large SOEs. A hurried privatisation may result in high costs because of a lack of institutional supports. These include a lack of legal safeguards for investors, a lack of regulatory institutions for industry, and a lack of a social safety net.

The lack of a social safety net outside firms is a particularly important reason why privatisation has been delayed. SOEs in China are an institution not just for generating profits. The SOEs serve many other purposes such as the provision of social

welfare. In the absence of a social safety net, laid-off workers could protest, for example, directly threatening the power of the ruling group. In turn, such an unstable social environment could indirectly have an adverse affect on the rest of the economy's development. Consequently, maintaining social order could be viewed as a public good, an externality that private owners would not take into consideration (Qian, 2000: 19-23). Therefore, in China the possibility of laid-off workers protesting is an important consideration for the ruling group, highlighting the fact that Chinese SOEs have a broad remit, which is to maintain the social order. The consequences of this will be discussed in Chapter 9.<sup>116</sup>

### **6.9.1: Grasping the large: the corporatisation of Chinese state-owned enterprises.**

As early as July 1980, a State Council policy document was published recognising the existence of economic links between different firms that had developed, whilst these firms were gaining increasing independence from their relevant ministries. Such enterprise groups are in contrast to what had previously occurred under the planned economy, where a firm only had links with the relevant ministry. By 1991, and then again added to in 1997, the State Council formally selected a national team of 120 large enterprise groups in sectors believed to be of national importance, such as the mining and oil sectors. These are the national champions that have benefited from high levels of protection, including high tariff barriers, together with other non-tariff barriers. Such non-tariff barriers included foreign importers having to make technology transfers, having to use components from Chinese suppliers, and being denied access to Chinese distribution channels. In addition, the national champions were:

- allowed to retain profits,
- allowed to make their own investment decisions,
- allowed to engage in international trade,
- allowed to establish their own internal finance firms,
- allowed to manage other firms owned by the state within the enterprise group,
- given R&D centres to nourish their technical progress,
- given substantial management autonomy, therefore they were at the forefront of separating ownership from control,

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<sup>116</sup> See section 9.10.

- recognised as an independent legal entity, with their property rights established under the Company Law,
- allowed to list themselves on stock markets to raise capital,
- given large-scale state financial support (Nolan, 2001: 18-19).

Chinese SOEs used to suffer from a relative lack of efficiency because, amongst other things, they tended towards traditional management practices (Clarke and Yuxing, 2005: 275). One of the key measures that corporatisation set in motion is ownership restructuring, moving away from traditional management practices. The main objectives of the ownership restructuring are to:

- make clear the ambiguities in SOEs' property rights,
- continue developing management autonomy,
- provide incentives for management to improve corporate governance (Zhang, 2008: 35).

In order for the Chinese government to make SOEs operate more efficiently, SOEs have to be subjected to a new set of rules, namely the rules of organisation under the modern enterprise system. This is the key purpose of the policy of corporatisation. Chinese policymakers then find that they have to adjust the rules to take into account continued state ownership (Clarke, 2003: 495).

To subject SOEs to the rules of the modern enterprise system, the corporatisation policy has developed stock markets and allowed SOEs to raise capital via equity issues. The Chinese stock market was organised as a vehicle for SOEs to raise capital and improve operating performance. However, a fundamental dilemma stems from the state policy of maintaining a full or controlling ownership interest in key SOEs. The state wants SOEs to be run efficiently, but not solely for the purpose of wealth maximisation. The state, therefore, wants to continue to be involved in the build up of the Chinese stock market. However, state involvement such as this creates a conflict of interest between the state as controlling shareholder and other shareholders. In addition, the state plays two roles, that of controlling shareholder and regulator. Developing the stock market in China serves several purposes other than shareholder-value maximisation. Protection of minority shareholders is not a prime objective. Furthermore, providing investors with timely and accurate information is not a priority.

Despite the fact that laws and regulations have been introduced, corporate transparency in China is low (Liu, 2006: 445-446).

### **6.9.2: The Code of Corporate Governance for Listed Companies in China.**

China's selected national champion SOEs have been allowed to list themselves on stock markets. In 2001, the CSRC issued the Code of Corporate Governance for all listed companies in China (Ho, 2008: 232). In accordance with the basic principles of the Company Law (see below) and other relevant laws and regulations, together with commonly accepted standards in international corporate governance, the Code of Corporate Governance for Listed Companies (CCGLC)<sup>117</sup> promotes the establishment and improvement of the modern enterprise system by listed companies, to standardise the operation of listed companies, and to bring forward the healthy development of the securities market of China. Among other things, the CCGLC sets forth the basic principles for corporate governance of listed Chinese companies, the means for the protection of investors' interests and rights, and the basic behaviour rules and moral standards for directors, supervisors, managers and other senior management members of listed companies. The CCGLC is the benchmark for evaluating whether a listed company has a good corporate governance structure. What the CCGLC stipulates is outlined in Box 6.1 on the next page. If major problems exist with a listed company's corporate governance structure, the CSRC can instruct that firm to make corrections in accordance with the CCGLC (China Securities Regulatory Commission, 2002: 1).

### **6.9.3: Other issues in Chinese corporate governance.**

Definitions of corporate governance in China tend to cover system regulating relationships amongst all parties with interests in a firm, often singling shareholders out as a particularly important group. However in practice, Chinese corporate governance discourse focuses mainly on agency problems and within two types of firms. These are SOEs provided for under the Company Law and listed firms. Listed firms must be Companies Limited by Shares under the Company Law. The Company Law speaks of a duty of loyalty (Clarke, 2003: 494, 505).

China's Company Law (effective in 1994) reflects the state's intent to provide a legal framework to modernise SOEs without abandoning socialist principles of public ownership and state control. The Company Law specifies a hybrid corporate governance

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<sup>117</sup> China's CCGLC draws heavily on the OECD principles (Mallin, 2004: 29).

- Controlling shareholders, the state, will support the listed company to reform labour, personnel and distribution systems, to transform operational and managerial mechanisms, to select management through bidding and competition, and to hire employees on the basis of competitive selection.
- The state, as controlling shareholder, owes a duty of good faith toward the listed company and other shareholders, and should not interfere with the company's decisions or activities conducted in accordance with laws.
- The state should respect the financial independence of the company and should not interfere with financial and accounting activities of the company.
- The board of directors (to include independent directors), the supervisory committee and other internal offices should operate independently.
- The board of directors should treat all shareholders equally and should also be concerned with the interests of all stakeholders.
- No institution or individual should interfere with a listed company's recruiting procedure for management personnel.
- A listed company should respect the legal rights of employees, consumers, suppliers, the community and other stakeholders.
- The listed company should be concerned with the welfare, environmental protection, and public interests of the community in which it resides, and should pay due attention to the company's social responsibilities.

**Box 6.1: Some Stipulations of the Code of Corporate Governance for Listed Companies (adapted from China Securities Regulatory Commission, 2002: 3-4, 6, 9-10).**

system, modelled on the Anglo-Saxon system but complemented with elements from the German two-tiered board system and the Japanese main-bank system. Such an eclectic mix of institutional elements, successful in their institutional environments of origin, has led to the creation of an organisational hybrid which is particularly weak in exerting effective corporate controls, be they market-based or stakeholder-based (Oppen

and Schwaag-Serger, 2008: 253-254). This is an example of the fact that policymakers in China favour a stylised Anglo-Saxon corporate governance system, but only in principle. In reality, China's corporate governance can be seen as a mixture of both the Anglo-Saxon and German-Japanese models<sup>118</sup> (Chen, 2005: 147). Therefore, a system of corporate governance has emerged that, as Redding and Witt (2006: 28) points out, pays 'lip service to Anglo-US ideals'. However in practice, they stress that control largely rests in the hands of insiders.

China's corporate law has certainly imported qualities from foreign corporate laws, particularly Anglo-American and German corporate laws. However, the Chinese Company Law, in comparison with other jurisdictions, has some distinctive, one could almost say 'Chinese', characteristics (Wei, 2003: 106). The Company Law requires directors, supervisors, and managers to execute their official duties and to protect firm interests without exploiting their positions and power within the firm. This is highlighted in Box 6.3, where the first five bullet points emphasise what directors, supervisors, and managers must do. The final three bullet points highlight that competition and self-dealing with the firm are prohibited under the Company Law (Lin, 2004: 4).

#### **6.9.4: The advantages of, and justifying, government control in Chinese corporate governance.**

Politics is a major force shaping any national corporate governance structure. In an emerging market such as China, the role of political interests is even more important. While Western corporate governance systems were developed according to an endogenous evolutionary process based upon the free exchange of property rights and profit making objectives over time, China has had to develop a new corporate governance structure virtually overnight. Perhaps this can only be achieved via a top-down approach where the state plays the major role (Opper and Schwaag-Serger, 2008: 251).

Normally, a state wealth maximisation policy would mean that the state acquires, maintains, or releases control according to what would maximise wealth for the state. However, the Chinese government does not have such a policy. The Chinese government uses its control of firms and in corporate governance for purposes other

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<sup>118</sup> See Box 6.2.

The Anglo-Saxon model of corporate governance is also known as the outsider system. It compares with the German-Japanese model, or the insider system. These are based on the outsider-based and the insider-based systems of ownership and control respectively. These two stylised models of corporate governance differ as follows:

- **The Anglo-Saxon model:** This is characterised by dispersed shareholding, shareholder sovereignty, and the alignment of manager and shareholder interests. It stresses the importance of monitoring, disclosure of information, and accountability.
- **The German-Japanese model:** This is characterised by cross-shareholdings, cross-representation of directors, investor involvement in decision making, and the concentration of share ownership. This system is said to have huge potential for inter-firm co-operation (Chen, 2005: 22-23).

**Box 6.2: The Anglo-Saxon and German-Japanese Model of Corporate Governance.**

than its own wealth maximisation, such as maintaining employment levels and direct control over sensitive industries, which are their higher national goals. Furthermore, political interference such as politically motivated job placement is another purpose (Clarke, 2003: 495). Therefore, the Chinese state maintaining control produces an effective corporate governance system because the state acts as the principal and pursues higher national goals.

In addition, there is a growing amount of literature arguing that large Chinese SOEs, especially the so-called national champions pursuing higher national goals, have been crucial elements in China's extraordinary economic growth. For example, Lo and Smyth (2005: 12) believe that large Chinese SOEs can be seen as being engines of growth. Indeed, Willner (1996: 28) believes that public ownership is not harmful for economic growth. If it was, Willner asks, then how can it be explained that economies such as Japan and South Korea have enjoyed high growth rates with prominent state-

- comply with the firm's constitution,
- perform their duties faithfully and uphold the interests of the firm and must not use abuse their position to seek personal gain,
- not take bribes or misappropriate firm property,
- not deposit firm funds in their personal accounts or other persons accounts,
- not use the firm's assets as collateral for personal debts,
- directors are prohibited from engaging in the business operations of another firm,
- directors are prohibited from engaging in activities that may adversely affect the interests of the firm,
- directors and managers are not permitted to enter into any activity with the firm unless the constitution says otherwise or unless they have shareholders' consent.

**Box 6.3: The Duties of Directors, Supervisors, and Managers under the Company Law (adapted from Lin, 2004: 4).**

owned sectors?

Most arguments that support the notion that political control in firm decision-making has a negative impact on corporate performance assume that politicians maximise social goals rather than the wealth of shareholders (Chang and Wong, 2002: 4-5). However, this depends on how one defines performance. Corporate performance in the traditional Western notion is to perform to achieve the goal of maximising shareholder wealth. For a Chinese SOE, especially a national champion, there may be different goals, such as the pursuance of higher national goals (employment levels, for example). Shleifer (1998: 133) points out that historically, politicians have used firms to correct market failures such as natural monopolies and externalities. In addition, Willner (1996: 13) suggests that politicians can use firms to accelerate technical progress. However, Shirley and Walsh (2000: 19, 21) believe that most social goals can be achieved via taxation, subsidies, and/or contracting. Therefore, there is no need for politicians to be directly involved in firm decision-making. However, in defence of

Chinese SOEs, politicians perhaps should be directly involved in firm decision-making to pursue the higher national goals that otherwise might not be achieved.

The fundamental dilemma of Chinese corporate governance is the state policy of maintaining full or controlling ownership in firms. To justify a policy mandating state ownership, the state wants firms to be run efficiently, but not only for the goal of wealth maximisation. The pursuance of higher national goals such as maintaining employment levels justify continued state ownership, suggesting that the Chinese corporate governance system is evolving to suit China's own specific purposes. However, two major problems do arise. Firstly, higher national goals cannot be easily measured, creating monitoring difficulties. Secondly, a conflict of interest can arise between the state and other shareholders. The state can exploit minority shareholders who have no other way to benefit from their investment (Clarke, 2003: 495).

SOE managers in China welcome the continuation of direct state-firm linkages to secure preferential access to resources in an insecure and rapidly changing institutional environment (Opper and Schwaag-Serger, 2008: 252). In fact, reflecting the economic dominance of SOEs and their preferential access to capital, SOEs continue to get a high proportion of investment. 58% of total fixed asset investment went to SOEs in 2004 (Rudman, 2006: 35). Close and continuing state-firm relations gives rise to a new, hybrid economic order of 'politicised capitalism'. In this, the state remains directly involved in guiding transactions at the firm level and the Chinese government rejected a complete privatisation of SOEs. Instead, large SOEs were corporatised, which is partly privatised with the government maintaining controlling shares, the goal being to raise equity capital without losing state firms as convenient policy tools to achieve higher national goals (Opper and Schwaag-Serger, 2008: 252). SOEs receiving preferential access to resources may be viewed by some as corruption. As perceived in the West, the allocation of resources to favourites is just one of the many forms of corruption that exist (Khan, 2006: 3). However, such preferential treatment may be viewed differently in China. It may be viewed as not corrupt at all, but part of their politicised capitalism.

#### **6.10: CNOOC and Sinopec's sustainability reporting.**

In the light of the discussions presented above, attention will now turn to assessing how the Chinese firms that operate in Angola behave. Established in 1982, CNOOC is the dominant offshore oil and gas producer in China. (CNOOC, 2005: 5). Their reporting

contains elements of the second generation of the evolution of the CSR agenda<sup>119</sup> in that they set targets and state commitments. Regarding setting targets, for example:

“In August 2006, CNOOC signed the energy saving agreements with five subsidiaries included in the Energy Saving Campaign of 1,000 Companies launched by the state government. The agreements clearly outline the energy saving targets of the five units during the 11th Five-year Plan period (2006-2010)” (CNOOC, 2006: 14).

“Between 2005 and 2010, the Company’s production grew at 16.3% CAGR (Compound Annual Growth Rate), exceeding 7-11% CAGR target set in early 2005. For 2010 to 2015, the Company will strive to achieve the production target of 6-10% CAGR” (CNOOC, 2010-2011: 8).

“CNOOC achieved historical high operating performance exceeding its annual production and operating targets, oil and gas output and production volume of major products increased significantly, the quality of development kept improving, its corporate image and brand influence were further improved, and accomplished all the targets set for the Eleventh Five-year Plan” (CNOOC, 2010: 18),

but without articulating how this was measured. Nevertheless, the general theme in their reporting concerns measuring performance according to the financial bottom line. This raises the question as to whether CNOOC adheres to the triple bottom line and the sustainability agenda. Their reporting contains the concept of sustainability from the third generation of the CSR agenda<sup>120</sup> as a statement of their commitments. For example:

“CNOOC ... is committed to ... pursuing a sustainable growth” (CNOOC, 2008-2009: 6).

However, the concept of sustainable development for CNOOC involves continued existence.<sup>121</sup> For example, they state that they are

“committed to continuing our efforts in [the] sustainable development of the company, taking on more social responsibilities and making [a] greater contribution to [the] harmonious development of society” (CNOOC, 2005: 1).

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<sup>119</sup> See Section 4.3.1.

<sup>120</sup> See Section 4.3.1.

<sup>121</sup> Even BP have confused sustainability with continued existence as outlined in Section 4.7.1.

Therefore, CNOOC feels that they should be sustainable as a company first, prior to addressing societal needs because, as CNOOC states:

“A company must first grow itself in making [a] contribution to sustainable development” (CNOOC, 2006: 38).

Nevertheless, being ‘sustainable as a company first’ requires creating value for their shareholders first, perhaps, for now, in preference to all other stakeholders because, as they state:

“We are continuously improving our core competitiveness and striving to achieve sustainable development in order to create more value for our shareholders” (CNOOC, 2010-2011: 44).

Sinopec too state commitments in their reporting. For example:

“We are committed to increasing the value of state-owned assets, protecting and balancing the interests of our shareholders, customers, employees and communities and other stakeholders, improving decision-making and risk prevention capabilities, ensuring effective and efficient business operations and promoting [the] sustainable development of the organisation” (Sinopec, 2009a: 8).

Sinopec’s first Sustainable Development Report outlined their contribution to the economy, environment and society (Sinopec, 2006: 1), and they state that they fulfil

“a corporation’s responsibility and obligation to promote harmonious and sustainable development among economy, society and environment” (Sinopec, 2008: 2),

which follows

“the principle of organic integration of its economic goals with social and environmental responsibilities” (Sinopec, 2009b: 5).

Therefore, Sinopec embraces the environmental and social bottom lines alongside economic growth, the triple bottom line, and arguably more so than CNOOC.

#### **6.10.1: Global initiatives.**

Sinopec’s first Sustainable Development Report also

“outlined their ... efforts in promoting the Global Compact” (Sinopec, 2006: 1),

and the first time that the Global Compact and the GRI are mentioned in CNOOC’s reporting is in 2007:

“This report was prepared in accordance with the GRI guide, and in the light of our commitments to the Global Compact. We understand that the

new standards require us to do more ... and ... in order to fulfil our commitments to ‘providing clean energy and creating a better life’, we are willing to apply ever higher standards” (CNOOC, 2007: 3).

As we saw in Section 5.10.4, the GRI is arguably preoccupied with environmental issues, and therefore, does CNOOC behave this way? They state that:

“It is the primary task for companies to promote the development of social economy. We are fully aware that a company can only be recognised and accepted by society and fulfil the goals of sustainable development through continuous contributions to the progress and development of social economy” (CNOOC, 2006-2007: 35).

In addition,

“Social responsibility undertaking is an integral condition for an enterprise’s sustainable development. An enterprise that fulfils its social responsibility will be rewarded by the society” (CNOOC, 2007: 59).

Therefore, CNOOC is not overly concerned with environmental issues, despite endorsing the GRI. Nevertheless, environmental issues are not ignored. For example:

“As a state-owned energy company, CNOOC took the initiative to help optimise energy consumption mix in China, promulgate industrial transformation, foster innovation, and participate in the building of an energy-saving and environment friendly society. We regard it as the most important area that we can help realise sustainable development” (CNOOC, 2005: 2-3).

It can be concluded therefore, that CNOOC has embraced the concept of sustainable development, but adapted it to their own needs, just as earlier Chinese enterprises embraced Western notions and adapted them. CNOOC needs to develop as a company first, and that is primarily what the concept of sustainable development means to them.

Indices are at the end of CNOOC’s Sustainability Reports from 2009 onwards, starting with:

“Content of GRI Index” (CNOOC, 2009a: 58),

to show how the reports adhere to the GRI guidelines. However, when this first appeared, in the 2009 Sustainability Report, an English language version of that particular report appears to be unavailable. This opens to question the clarity of CNOOC’s reporting because, as the GRI guidelines clearly state:

“The data and information in the report is available to stakeholders, including those with particular accessibility needs [such as] language” (Global Reporting Initiative, 2000-2011: 16).

More importantly, concerning the GRI, CNOOC state that their reports are

“prepared with reference to the applicable standards recommended by the Global Reporting Initiative” (CNOOC, 2011: ii).

Furthermore, Sinopec

“endeavours to apply the ... principles of the Global Reporting Initiative” (Sinopec, 2006: 1).

However, their reporting also

“does not include all relevant indicators” (Sinopec, 2011b: 75).

This suggests that they both provide their own accounts of sustainability, and they are not fully adhering to the guidelines. As we saw in Section 5.10, the problem with firms producing their own accounts is they may only report what they want to report to mask negative impacts. Of equal concern is the fact that firms could use their reporting not just to mask but to misstate their performance (Burgstahler *et al*, 2004: 14), and this potential will be examined in Chapter 9.

#### **6.10.2: Higher national goals and symbolic relationships.**

As national champion SOEs, both CNOOC and Sinopec pursue the higher national goals that otherwise might not be achieved such as maintaining employment levels, and they both compensate for the lack of a social safety net in China. This involves valuing their existing employees because, as Sinopec state,

“Sinopec ... believes that [its] employees are its most important resources for sustainable development” (Sinopec, 2007: 7).

In addition, CNOOC considers that the

“wellness of our staff is [the] priority for our sustainable development” (CNOOC, 2005: 3).

Furthermore,

“CNOOC attaches great importance to ... building stable and harmonious relations between employees and the enterprise” (CNOOC, 2008: 49).

This raises the question as to what will happen when CNOOC invests overseas, and thus, the consequences of this will be assessed in Chapter 9. Nevertheless, a clue to how the Chinese engage with potential host countries is provided by Mr. Zhang Ming, the Chinese Ambassador to Kenya, who stated that:

“CNOOC is a large oil company of our country. The Voyage of Love<sup>122</sup> it launched is an act of benevolence and kindness to African People, well timed against the opening of the Beijing Olympic Games. It exemplified CNOOC’s commitment to social responsibility, shows Chinese people’s lasting friendship to Africa and also echoes the Olympic spirit of Peace, Cooperation and Friendship. This activity is of great significance and value” (CNOOC, 2008: 36).

This represents an example of the symbolic building of relationships with Africa which is a key consideration for Chinese SOEs when they engage in outward FDI.

### **6.11: Discussion.**

Goetzmann and Köll were concerned with why legislation at institutional environment level, the 1904 Company Law, did not have a larger influence on the behaviour of corporate management at the micro-level, given that the law itself contained many of the modern features found in such laws today. They believed that it did not work because the lack of supporting institutions meant that the legislation was not strong enough to overcome business practices at the micro-level that were deeply rooted in historical and family-based ways of doing business, together with the weakness of the Chinese stock market with its early boom and bust cycles. Nevertheless, the problem did not lie with the quality of the law itself. China did not have an evolved legal system sound enough to sufficiently enforce and implement the law. However, Allen (2005) concludes that there are very effective non-standard mechanisms to support the growth of China’s economy today, with the most important mechanism driving good management and corporate governance being competition at the macro-level.

Competition from foreigners was one of the incentives that instigated adopting the corporate form and 1904 Company Law, and this is also a key incentive that drives corporate governance reform today. In addition, Greif gave a historical example of traders successfully overcoming a lack of legal enforcement mechanisms by developing institutions based on reputation and trust, resembling what works in China today. Therefore, history tells us that strong legal frameworks have not necessarily been required for success at the micro-level.

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<sup>122</sup> During 2008, the year of the Beijing Olympics, CNOOC made a ‘Voyage of Love’ to celebrate the Games to its overseas operations in Equatorial Guinea, Indonesia, and Kenya. CNOOC sent Olympic Games mascots and cultural and sports articles to primary schools in the local communities, and helped local educational authorities to raise education and teaching standards. In addition, CNOOC sponsored all of the attire for the national Olympic delegation of Equatorial Guinea (CNOOC, 2008: 36).

Historical evidence suggests that government interference appears to have negative effects upon firm performance in both the early corporations in China, and the listed SOEs of today. McNally (2002) found that continued state authority had negative effects on corporate governance in the state sector as a whole. However, McNally did recognise that the Chinese state was extremely capable of effectively managing a small number of high-profile corporations in relation to corporate governance, and this would include the two national champion oil firms that are considered in this thesis. Nevertheless, increased management autonomy today is avoiding the problems of direct interference in the running of firms, and Chinese managers are embracing good business practices from abroad via overseas educational opportunities, following on from how foreign business practices were embraced earlier.

The case of Liu Hongsheng and the development of his enterprises whilst acquiring knowledge of managerial technology with KMA shows that China has had a history of embracing Western business practices and adapting them to Chinese business needs at the micro-level. Today, as Christoffersen (1998: 6) states, China's integration into the international oil market has been nurtured by Japan and the USA, although it was resisted by Chinese cultural conservatives. This integration was driven by the need for foreign technology to be transferred to China, both managerial and technical. This is perhaps a lesson learnt from this earlier period with Liu Hongsheng embracing Western managerial technology, which is that a developing country such as China needs technology transfer from the developed world in order to be competitive. China's earlier adoption of the corporate form, just like its adoption today, is driven by a sense of competition with the West. Indeed, China's chosen national champion SOEs in the oil sector, do, according to Nolan (2002: 121, 125), process significant 'requirements for technology transfer'. However, Nolan believes that they have absorbed modern management techniques together with making major technical advances (technology transfer from the macro-level to the micro-level). Indeed, Chinese firms have historically been perceived as imitators rather than taking the lead in technological innovation (Gugler and Boie, 2008: 14).

Khanna *et al* (2006: 71) state that a nation may have *de jure* convergence to Western models, referring to the adoption of similar corporate governance laws across countries. Conversely, convergence may be *de facto*, referring to a convergence of

actual practice. Nevertheless, a nation might only have de jure convergence because the acceptance of a recognisable Western interpretation may significantly lag in its codification for several reasons, including path dependence. From an economic history viewpoint, Mahoney (2000: 508-509) states that within the framework of path dependence, economic scholars consider self-reinforcing sequences characterised by the formation and long-term reproduction of a given pattern. Adopting a path dependent analysis involving reactive sequences, which are chains of causally connected events, one can see that each event within the sequence is in part a reaction to what has occurred previously.

Features of the early corporate form described by Goetzmann and Köll have re-emerged in the adoption of the corporate form today, such as a sound Company Law but a lack of supporting institutions, and the management autonomy experienced in the early years of the CMSNC, but with state patronage. The state patronage today takes the form of the state retaining a majority shareholding to nurture the national champion SOEs, and this has been influenced by the previous sequence of events instigated by the Communist Party reforming SOEs that led to the SOEs of today becoming wholly state-owned or joint-stock companies with limited liability. Che and Qian (1998) believe that in the foreseeable future, continued state patronage for large Chinese SOEs remains desirable. Indeed, the Chinese government feels that high social costs would result from the departure of state ownership from firms, and the Chinese government considers it important to nurture large firms in key sectors, such as the oil industry. Therefore, the two large Chinese oil firms, CNOOC and Sinopec, that are active in Angola must be considered, as Clarke (2008: 8-11) stated, as divisions of 'China, Inc'. In this sense, they must be viewed as divisions of the overall energy policy of China, and they have altered, or features have remained (state ownership), by reacting to or recreating the past. CNOOC and Sinopec are controlled by state-holding companies, and they conduct their operations through a great many wholly-owned and joint-stock subsidiaries (Congressional Budget Office, 2006: 11). Therefore, the impact of the new entrants will not be considered, in Chapter 9, by just looking at the firms themselves but also by assessing Chinese involvement as a whole.

Additional sequences of events have also shaped today's SOEs. State

interference in the management of firms during the time of the later years of CMSNC during the time of the Kuomintang regime, and even during the transitional SOE period, had negative effects which highlighted the requirement for management autonomy today. Consequently, path dependence analysis in this sense, by considering reactive sequences, shows that reacting to past events can promote innovation and reform, rather than normal path dependent analysis which is used to explain persisting with outdated practices. Furthermore, recreation of what has happened in the past, such as embracing Western techniques in the name of technology transfer and adapting them, can aid the competitiveness of today's Chinese SOEs.

During the first stage of the evolution of government control in corporate governance the privatisation of SOEs was delayed. However, in the second stage small- and medium-sized private enterprises emerged as a new engine of growth. Nevertheless, large-sized SOEs in vital sectors were not privatised and began to be nurtured by the government. Large SOEs were corporatised and significant management autonomy was developed. These 'national champion' SOEs have been specifically chosen and prepared for global competitiveness, and the Chinese government continues to be the major shareholder. These are the types of firms that are engaging in resource-seeking outward FDI in Africa. Continuing state-firm relations, which may be regarded as a set of built-in preferences (action determinism within strategic choice analysis), has given rise to a new, hybrid economic order of 'politicised capitalism', and SOE managers in China welcome the continuation of direct state-firm linkages to secure preferential access to resources in an insecure and rapidly changing institutional environment. In addition, the lack of a social safety net is an important reason why SOEs continue to play a key role in China. Nevertheless, what kind of firm organisational form has emerged in China?

At any one time, a firm occupies a position along the state socialist versus market orientation continuum. This continuum has at one end of the extreme a situation whereby the allocation of resources is controlled by political-bureaucratic institutions, the state. At the other end of the extreme the allocation of resources is controlled by the market. In between these two extremes is a situation whereby the allocation of resources involves a mixture of both market and political-bureaucratic mechanisms. Krug and Kuilman (2007: 226, 231-232) state that only a few firms in China work under pure

market conditions, whilst at the other end of the extreme China has the unreformed, old-style SOEs that are still subject to planning quotas and they are still controlled by government ministries. However, Krug and Kuilman state that in China the most common form of firm organisation is an organisational hybrid containing a mixture of state and market resource allocation mechanisms. During the planned economy period, SOEs received the most distribution of resources as this was controlled by the state. With the coming of the market reforms, the old-style SOEs have lost out when it comes to resource distribution as there has been a shift towards the allocation of resources being mostly given to organisational hybrids and market orientated firms. Nevertheless, this shift towards the market orientated firms receiving the most resources has some way to go, and consequently, it is the organisational hybrids that benefit the most from the allocation of resources. However, from a purely identity perspective, Chinese SOEs, both old-style SOEs as these are remnants of the planned economy and reformed SOEs that are now organisational hybrids, are distinct from market orientated firms. Therefore, if one attempts to place the firms under consideration in this thesis into organisational categories, the Chinese national champion SOEs are organisational hybrids whilst BP is a market orientated organisation, and consequently, the Chinese firms and BP have distinct characteristics.

One of the key problems in China's corporate governance is the insider control of corporate affairs. The control of China's firms rests primarily with insider-managers, who in turn are often controlled in various forms by their Communist Party and ministerial associates, who do not always act in the best interest of shareholders. Instead, they may pursue 'higher national goals' such as employment which may be regarded as built-in preferences (action determinism within strategic choice analysis), and the consequences of this will be assessed in Chapter 9.<sup>123</sup> Another problem is the fact that although on paper Chinese laws on corporate governance follow international standards, which should provide a positive influence coming from the global institutional environment to the micro-environment, falsification and fabrication of financial data by listed firms is commonplace. Firms are able to conceal corrupt dealings (Lin, 2004: 9). This may affect their willingness to be transparent when they

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<sup>123</sup> See section 9.10.

invest abroad, and assumingly, accounts for their willingness to invest overseas with no conditions attached. The consequences of this will also be assessed in Chapter 9.<sup>124</sup>

Nevertheless, a number of distinctions can be identified from this chapter and the previous chapter. Firstly, Chinese corporations that are engaging in operations in Africa are generally undeterred by risk, unlike Western firms. This is due to the very fact that they are state-owned and consequently, they are not accountable to any investors (Taylor, 2009: 21). Western firms, under the watchful eye of investors and other potential critics, are obliged to consider risk and the governance climate, whereas Chinese corporations merely have to serve their political masters who require energy security. Furthermore, according to Gill and Reilly (2007: 49), ‘China’s newly crowned national champions leading the go-out strategy are the same large-scale, inefficient, highly subsidized SOEs that have resisted previous reform efforts in China. It is unlikely that they have suddenly become models of efficiency simply because they are operating abroad, particularly given the political interests involved, the SOEs’ lack of experience, and the moral-hazard problem’.

As Blowfield and Frynas (2005: 500-501) state, since there is no common definition on what the concept of CSR actually is, it is interpreted and used differently by different people. However, one way of looking at CSR is to consider its cultural roots. Whilst the notion of corporate responsibility is not unique to the West, the most publicised approaches to today’s CSR may be regarded as Anglo-Saxon, and this has evolved because of a rediscovery of the social concerns of business in Anglo-Saxon countries. Whilst there certainly has been an embracement of Western practices, whether CSR is being implemented by Chinese firms in Africa in the same way that Western firms do is open to question. This is because, for example, BP is a private firm that has a defined corporate structure to embrace CSR, together with long-term experience of operating overseas. In comparison, Chinese firms, as SOEs, are essentially tools utilised by the Chinese government to secure energy security, and they operate within an insider system whilst BP operates within an outsider system. In essence, the Chinese state will play a key role when CNOOC and Sinopec invest overseas, and the consequences of these different approaches will be examined in Part 3.

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<sup>124</sup> See section 9.8.

# Part 3.

## **Chapter 7: Angola's developmental needs.**

### **7.1: Introduction.**

Angola represents a distinct case because of the combination of numerous historical, social, and economic attributes that are rarely found elsewhere in Africa. Angola is in the hands of an all-powerful president, Jose Eduardo dos Santos, whose support is largely drawn from a homogeneous social and cultural elite. This elite, known as the Luanda Creole community, has a long history of dominating the social, economic, and political scene in Angola. Having been in power for over thirty-five years, dos Santos has ensured for himself almost total political and economic hegemony. However, as distinct as this situation may be to Angola, it does represent a political condition that is far from uncommon in Africa. The president conspires to remain in power using a careful balancing act between cooperation and repression, and the fact that he can enjoy almost absolute control means that dos Santos has the kind of power that many authoritarian rulers in Africa have enjoyed.

In addition, Angola has the same implications of having an oil economy as other oil-producing states in Africa, like Nigeria and Gabon, in that Angola can dispose of oil revenue rents at will. Oil revenue surpluses are used for unproductive activities such as patrimonial purposes and personal enrichment, and the large amounts of oil revenues enables a government to buy political support and even buy their way out of political problems. For these reasons, it is unlikely that the Angolan government will bow to international pressure and make their oil revenues subject to greater transparency and financial accountability. Indeed, all such previous attempts by the international community have failed (Chabal, 2007: 11-14). Furthermore, a total political and economic hegemony like Angola's promotes a situation where there is no distribution of resources to the large majority of the people. Consequently, public services collapse and as a result, poverty thrives (Vidal, 2007: 203). As Doctor Gbadamosi comments:

*“Much of what you will find in Angola is typical of what is likely to be the scenario in most of ... Africa involved in oil production, ... and much of [these countries] will have similar problems of poverty, of poor infrastructure and lack of institutional support for businesses. [Nevertheless], Angola specifically has been a country having been ravaged by war for ... thirty years and it's very different, it's very unique in its own way”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Therefore, Angola is representative of African oil-producing countries, but it is more of a critical case because the African-wide problems of poverty, poor infrastructure, and a weak institutional environment which have been worsened by a long civil war.

Consequently, this chapter will outline the factors that require consideration when identifying the country's own development needs. We will begin by looking briefly at the historical background of Angola and suggesting that the country represents a lost potential. Then the colonial legacy will be explored, before addressing Angola's institutional capacity, an important factor for promoting economic development. The recent civil war will then be considered because conflict must be taken into account when attempting to identify how to assist in economic development. Finally, the Angolan oil sector will be outlined prior to identifying six ways in which international oil corporations should contribute to Angola's development. Whether the international oil corporations focused upon in this thesis contribute in the ways suggested below can then be analysed in subsequent chapters.

## **7.2: Angola: background.**

Prior to independence in 1975, Angola served the needs of its Portuguese colonial masters for almost 500 years. The characteristics of the colonial economy were determined by exports. At first, this was the export of slaves, and then it became the export of primary commodities, like rubber and coffee. By the early years of the twentieth century however, Angola was in the first stages of development based upon railway building, diamond mining, and plantation agriculture. Nevertheless, rapid economic growth only really ensued after the Second World War, based firstly upon coffee plantations, and then upon oil extraction. In the years between 1960 and 1974, the Portuguese colonial authorities invested heavily in Angola's infrastructure, including transport, whilst restrictive investment laws were liberalised in 1965 to encourage inward FDI (World Bank, 2007: 11-13). This led to key agricultural and mining ventures being taken over by American, British, German, and Japanese corporations (Roque, 1997: 15-16).

However, economic development under the Portuguese did not benefit the mass of the Angolan people. The best land was taken away from Angolans and given to Portuguese settlers, since the colonial authorities encouraged Portuguese immigration, and such compulsory relocation was extremely disruptive to traditional agriculture.

Angolans were denied access to any education by the colonial power, and consequently, locals were absent from managerial and technical employment. In addition, semi-skilled and low-skilled jobs were reserved for poorly educated Portuguese immigrants (World Bank, 2007: 11-12).

Nevertheless, despite such deficiencies, Angola was relatively well-placed to enjoy sustained economic growth upon independence. The country had efficient agricultural and mining sectors, a sizeable and diversified manufacturing sector, and a well-developed transportation infrastructure. However, this potential was not realised because of:

- high levels of corruption,
- an increasing dependence upon oil to produce revenues,
- the government instituting a centrally-planned, command economy that was subordinated to a military agenda,
- a long and bitter civil war.

As a result, the Angolan economy has been mismanaged and exploited, and is now in the position of requiring a long-term development strategy that should encompass investment in human capital, investment in infrastructure, improved governance, and a broad-based poverty alleviation program (Roque, 1997: 17-19).

Angola is now highly dependent upon oil revenues, despite once being a major producer of coffee and other commodities. Agricultural activities have declined dramatically, and although diamond mining has continued, on both the artisan and capital-intensive levels, the revenues earned are a fraction of those earned from oil production (Shankleman, 2006: 99-100). Today consequently, the Angolan economy's performance is closely tied to world oil prices (Koyame and Clark, 2002: 214).

### **7.3: The colonial legacy.**

There are perhaps three major legacies from Angola's colonial era. Firstly, there is the lack of a democratic tradition. In British and French African colonies, independence was preceded by a short period of parliamentary government and multi-party politics. Over time however, such a democratic tradition did not prove to be strong enough to cope with the social and economic challenges facing these former colonies, but at least attempts were made. Angola had no such democratic tradition. Upon independence, Angola inherited a highly centralised administrative system and a repressive political

climate. Therefore, colonial Angola replicated the environment that existed in the homeland of their colonial masters before Portugal's revolution in April 1974. This background did little to promote political openness, arguably less than in other former African colonies.

The second legacy of the colonial era is the lack of educational opportunities for Angolans. Prior to independence, Angola's institutions were overwhelmingly staffed by Portuguese expatriates at the managerial and technical levels. In the British and French African colonies there were conscious attempts to train and educate local Africans, with a view to them assuming control. This did not happen at all in Angola, partly because local Angolans were largely denied access to education in the colonial era. Despite the fact that during the 1960s primary school enrolment did increase, by the time of independence 85% of Angolans were still illiterate. In addition, few Angolans had received a secondary education, and even fewer received a university education. There was an establishment of a university in 1963, but by 1973, 73% of its students were foreign. The consequence of all this is that upon independence, when most of the Portuguese settlers emigrated from Angola, the country's institutions and all the sectors of the economy that relied upon Portuguese expatriates were left with a skills gap that would be hard to fill (Hodges, 2004: 48-49).

The third legacy of colonialism is the problem of unrepresentative internal borders. Throughout Africa boundaries were drawn up to meet the convenience of colonial power and they did not represent the structure of native constituencies on the ground. This problem is particularly acute in the case of oil-producing states today as it gives rise to disputes concerning the allocation of oil revenues between regional enclaves and the central government, such as with the enclave of Cabinda in Angola (Klare, 2009: 45).

Often referred to as Angola's forgotten war, there has been a decades-long secessionist conflict in the oil-rich enclave of Cabinda between the Front for the Liberation of the Enclave of Cabinda (FLEC) and the central government. The FLEC and other separatist factions argue that self-determination is justified because, unlike the rest of Angola, Cabinda was not a Portuguese colony, but a protectorate. In addition, separatists claim that Cabinda has its own culture, history, and identity. Therefore, in the point of view of the FLEC and other separatist movements, Cabinda was illegally

occupied after independence by the People's Movement for the Liberation of Angola (MPLA) government (IRIN, 2003: 1). It remains unlikely that the central government will grant self-determination to Cabinda, since a significant proportion of Angola's oil reserves are located within the enclave.

#### **7.4: Angola's institutional capacity.**

The institutional environment is highly important when it comes to promoting economic development. This is because corruption is likely to exist in all developing countries, and indeed, in developed countries too. However, successful countries have the institutional capacity and governance capabilities to manage the structural drivers of corruption in such a way as to still promote economic development, which in turn can create the environment for sustained improvements in governance practices (Khan, 2006: vii). As Park and Lee (2005: 13) state 'institutions matter for economic growth', and therefore, the question is whether Angola has the institutional capacity to manage and prevent corrupt practices.

Angola's state oil company, Sonangol, is in charge of leasing oil concessions. In addition, Sonangol is a shareholder in, or directly operates, many of the oil production blocks (Shankleman, 2006: 99). Sonangol was founded in 1976 to manage the oil industry on behalf of the Angolan government. Consequently, Sonangol plays a key role in the legal and contractual framework governing the oil sector. Angola's Petroleum Activities Law makes it clear that the state owns all oil rights, and makes Sonangol the sole concessionaire with the rights to all exploration and drilling activities. The law states that any oil corporation that wishes to engage in exploration and drilling must do so in association with Sonangol. This association has to be either as a commercial firm, a joint venture, or as part of a contract for production sharing. In addition, Sonangol can become an equity participant in an oil field according to the law.

The Angolan government, through Sonangol, enters into two different types of agreements with international oil corporations. Firstly, there are Concession Agreements, applying to onshore and shallow-water offshore blocks, mainly in Cabinda, and secondly, Production Sharing Agreements, applying to deep-water and ultra-deep offshore blocks. The World Bank (2007: 39, 43-44) considers that such concessionaire decrees, in general, 'cover appropriate topics and are clear and modern in style'. However, such a legal regime is complex, and consequently, it requires an

adequate institutional capacity to manage it. Therefore, there is nothing really wrong with the law itself. The question is whether Angola has the appropriate institutional capacity to deal with such a complex legal and contractual framework.

The institutions in question are the Ministry of Petroleum (MOP), the Ministry of Finance (MOF), and Sonangol. The MOP has the responsibility of determining prices that are to be used for fiscal purposes. Contractors submit price information on their transactions to the MOP, from which the MOP determines a market price for that financial quarter. This system is generally regarded as one which works well. The MOF has the responsibility for assessing and collecting royalties and taxes. The MOF's office contains only three to four professionals, and although it performs its tasks relatively well considering its limited resources, it is often forced to rely upon outside auditors. Therefore, the MOF is clearly ill-equipped to perform its functions adequately, despite the fact that its small number of sufficiently educated staff members perform well.

Sonangol is the final institution in question. One of the responsibilities that Sonangol has, as concessionaire, is to pass on the oil revenues that are due to the Angolan government (World Bank, 2007: 46). It is here that one can have concerns about a lack of transparency regarding tax payments made by international oil corporations. These corporations do not pay their taxes directly to the Angolan Treasury. The IMF noted, in its March 2002 report, that Sonangol has complete control of these payments made by the international oil corporations, and Sonangol had ceased channelling them through Angola's central bank, which Angola's law requires. Such payments were now being channelled through the bank accounts of the company's subsidiaries. When the tax payments finally reach the Treasury, they are usually late and less than expected. The MOF and the Angolan government are unable to verify that all the tax payments made to Sonangol by international oil corporations really do reach the Treasury. This is due to the fact that Sonangol's accounts have no history of having ever been subject to an independent audit (Hodges, 2004: 167). Doctor Gbadamosi comments upon funds being channelled via Sonangol by saying that this:

*“case with Angola is quite peculiar. Although there are problems of corruption [throughout] Sub-Saharan Africa, [this] kind of scenario [is] very blatant”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Sonangol is not only a tax payment watchdog. In addition, it has many other responsibilities, including an investor of public funds, an oil sector regulator (as concessionaire), and Sonangol also engages in quasi-fiscal operations that have been assigned to it by the government. These operations include supplying oil products within Angola at subsidised prices, making oil product deliveries to public services below cost, and managing public debt. Such powers give Sonangol a hugely independent role within the Angolan economy. However, due to the fact that Sonangol receives little reimbursement from the government for carrying out these tasks on their behalf, it claims credit or offsets its tax liabilities in lieu of reimbursement. Therefore, a limited receipt of reimbursement from the Angolan government provides Sonangol with an incentive to be less than transparent when it comes to passing on the tax payments that are due to the government.

Oil-rich developing countries, the example here being Angola, do not score well against such governance indicators like levels of transparency. Weak governance practices often pre-date oil sector development in many such countries, making it difficult to manage oil revenues from the outset. The task of managing oil revenues often overwhelms the existing institutional capacity, and furthermore, wealth procured from the oil sector may even provide little incentives to create effective institutions. This is because decision makers may feel that oil money flows so easily that there is no need to manage it, and additionally, actors who benefit from oil revenues may regard effective institutions as unwanted regulators (World Bank, 2007: 48-49).

### **7.5: The civil war.**

Gauged from the situation that exists in the DRC, Afoaku (2005: 195) comments that in Africa generally, it is extremely difficult for governments to meet the demands of the people to provide sustainable economic development and security, and as a result, civil conflict has become the defining feature in most of the countries on the African continent.

The civil war in Angola requires consideration due to the fact that conflict should not be treated as an exogenous factor when attempting to identify relevant strategies to assist in economic development. Conflict is one of the key determinants of poor economic growth, and the consequences of conflict have to be taken into account in any efforts to promote economic development (Gudmundsson, 2004: 62-63).

Angola's civil war originated in the early 1960s when differing liberation movements sought independence from Portugal. In 1961, the MPLA began the armed struggle by launching an attack on a prison in Luanda, whilst the National Liberation Front of Angola (FLNA) organised a rebellion in the northwest of Angola. Later, in 1965, came the formation of the National Union for the Total Independence of Angola (UNITA).

The 1974 revolution in Portugal led to a sudden decision to grant independence to Angola, at a time when the MPLA, FLNA, and UNITA opposed each other together with objecting to Portuguese colonial rule. All three of these key nationalist movements had differing ideologies, differing regional bases of support, and differing external backers. All three signed up to the Alvor Accords in January 1975, which was designed to instigate a power-sharing regime prior to elections being held later that year. The Alvor Accords were never implemented however, and the subsequent fighting between the three nationalist movements resulted in the MPLA seizing control of Luanda, with UNITA being forced to regroup in southern Angola whilst the FLNA were largely forced into exile. In addition, separatist movements in the enclave of Cabinda sought independence. However, they were not included in the Alvor Accords, and Cabinda separatists still seek independence from Angola today.

November 11<sup>th</sup>, 1975 saw the declaration of independence of the People's Republic of Angola, with a MPLA Marxist-style government, following the departure of the Portuguese the previous day. Angola then became embroiled in a continuous civil war until the late 1980s between UNITA and the ruling MPLA, with both sides used as pawns in the Cold War (Shankleman, 2006: 93-95). This is known as 'war by proxy'<sup>125</sup> (Collier and Hoeffler, 2004: 571). The Soviet Union provided the MPLA government with support via loans, military advisors, and arms. Cuba, a Soviet ally, actually sent troops, reaching a deployment of 50,000 at its height. The USA assisted the UNITA rebels in much the same way the Soviet Union did, whilst South Africa attacked Angolan targets in an attempt to curb Soviet and Cuban interference in southern Africa. With the thawing of the Cold War, the Soviet Union and the USA retreated from their

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<sup>125</sup> War by proxy is when foreign governments finance military forces, often those that oppose incumbent governments, but do not get involved in the conflict directly. During the Cold War, both the Soviet Union and the USA attempted to destabilise those countries allied to the opposing power by deploying such methods, avoiding direct conflict in the process (Collier and Hoeffler, 2004: 571).

indirect involvement, their 'war by proxy'; whilst under the New York Accords of December 1988, Cuban and South African troops withdrew from Angola. Nevertheless, the conflict between the MPLA and UNITA continued.

Between 1988 and 2002 there were periods of intense fighting that were interspersed with peace initiatives and ceasefires. By now, the ideological differences between the MPLA and UNITA had waned. However, their regional bases of support remained. The Bicesse Accords in 1991 led to a ceasefire, followed by the first ever elections in September 1992 for a national assembly and for the position of president in Angola. For the national assembly, the MPLA received 54% of the vote, whilst UNITA received 34% of the vote. For the position of president, the MPLA's Jose Eduardo dos Santos received 49.5% of the vote, whilst UNITA's Jonas Savimbi received 40.1% of the vote. However, before a second round of presidential elections could be held, Savimbi withdrew UNITA troops from a previously negotiated combined army and, subsequently, fighting resumed until the Lusaka Protocol was negotiated in 1994. This built upon the Bicesse Accords by addressing its weaknesses, providing for power sharing between the MPLA and UNITA within a government of national unity. Following the Lusaka Protocol, four years of 'quasi peace' ensued, with sporadic fighting between areas of Angola controlled by the MPLA and UNITA. This sporadic fighting broke out into full civil war again in late 1998, until six weeks after the death of Savimbi; the Luena Memorandum of Understanding was signed on April 4, 2002. This ceasefire, restoring the Lusaka Protocol, has held until today.

This civil war however, although initially a struggle between differing ideologies, became, certainly by the late 1980s, fundamentally a struggle for power and domination between the MPLA and UNITA, with both groups holding regional power bases. Civilians in these areas were drawn into a conflict that was based upon the rivalry between these two competing political elites. Nevertheless, the April 2002 ceasefire that has continued to hold, did not involve any significant restructuring of power away from the MPLA at the national level, although there has been a redistribution of provincial administrative posts.

The consequences of this prolonged conflict are that Angola has lost many years of potential development. Instead, much of Angola's infrastructure was destroyed, including railways and roads, and rebuilding infrastructure is one of the key priorities of

Angola's Strategy to Combat Poverty, which was released in February 2004 (Shankleman, 2006: 95-98). In addition, the revenues from oil and gas exploitation were redirected away from productive endeavours that could have been conducive to development, in order to fund the civil war (Winston, 2003: 79). For example, between 1975 and 1985, the MPLA government spent 60% of its revenues on the military to enable it to engage in the civil war. In the same period of time, Angola spent just US\$49 per capita on the productive endeavour of education, but spent US\$133 per capita on the military (Osman, 2007: 55).

The tasks that face Angola now, as a post-conflict country, is the promotion of economic development which should prevent future conflict. This can be achieved, amongst other things, by reducing primary commodity dependency and promoting economic diversification, infrastructure reconstruction, and developing a good quality institutional environment (Yartey, 2004: 119). In addition, the importance of transparency and overall good governance cannot be underestimated when it comes to promoting development. Low transparency and corruption in public management is not unique to post-conflict, oil-producing countries like Angola, but such countries are particularly vulnerable. Efforts by, for example, international oil corporations to enhance transparency in their dealings with a country like Angola can be instrumental in changing the overall perceptions concerning governance in the country (Cossé, 2006: 10-11).

### **7.6: The destroyed transportation infrastructure.**

The World Bank compiled a study, in 2005, to assist Angola's government in developing a framework for the reconstruction of Angola's infrastructure, a particularly important socio-economic need at the macro-level. The World Bank believes that the required investment in the destroyed infrastructure following the civil war requires multiple funding sources, and these should include the Angolan government's own resources, the private sector, and international donors.

If one focuses upon transport infrastructure, a large part of the existing road network was built during the colonial era. When the World Bank study was compiled, much of the road network had received hardly any maintenance due to the fact that many roads are situated in former war zones and they have hardly carried any traffic. The responsibility for managing Angola's road network lies with the Angola Roads

National Institute (INEA). The INEA had little or no knowledge of the destroyed state of the road network or of the possible reconstruction costs.

The World Bank study also considered the condition of the railway network. The Luanda Railway is run by the Empresa de Caminhos de Ferro de Luanda (CFL), a state-owned enterprise, and its services had been disrupted by the civil war and floods. In addition, CFL were not able to cover its operational costs. Another state-owned enterprise, namely the Companhia de Caminho de Ferro de Mocamedes (CFM), runs the Mocamedes<sup>126</sup> Railway. CFM was suffering from a severe lack of trained technical staff in all categories. The Benguela Railway is run by the Companhia de Caminho de Ferro de Benguela (CFB). CFB was originally Belgian-owned because of a 99-year concession that ran out in 2001, and it is now formally state-owned. The Benguela Railway played a key role in the transportation of imports and exports to and from landlocked southern African countries, as well as to and from Angola's central region, in the third quarter of the last century, prior to the civil war. Damage caused during the civil war had closed this interregional and international transport of goods and extractive industry sector resources along the Benguela Railway (World Bank, 2005: 11, 75-76, 80-81).

### **7.7: Angola's oil sector: what international oil corporations can do to promote development.**

The oil sector first rose in Angola with an onshore discovery in the Kwanza basin in 1955. Oil later became a major industry in the late 1960s when offshore production began in the shallow waters off the coast of the enclave of Cabinda (Hodges, 2007: 176). Oil production rose rapidly, particularly after 1969. By 1973, oil production was already at 144,000 b/d, and following the increase of world oil prices in that year, oil overtook coffee as the leading export, accounting for about one third of total export revenues (World Bank, 2007: 12). Despite a brief downturn in oil production during the transitional period surrounding independence, new shallow-water offshore blocks were granted licences to operate, leading to steady increases in production beginning in the early 1980s. In the 1990s, major international oil corporations began to apply for licences to operate in deep-water offshore blocks, due to an increase in deep-water exploration and drilling technologies that had been pioneered in oil fields such as the

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<sup>126</sup> Mocamedes is now called Namibe (Hodges, 2004: 102).

North Sea. Intense competition was sparked off amongst international oil corporations after a rapid succession of major discoveries, and by 1999, the first licences to operate were being negotiated for so-called ultra-deep offshore blocks. Such investment in offshore blocks caused oil production to increase from 136,000 b/d to 996,000 b/d between 1980 and 2004 (Hodges, 2007: 176-177).

Therefore, the rise of Angola's oil sector was not disrupted by the civil war. This is because oil sector operations, which are mainly offshore, had little or no interaction with the conflict that was occurring within Angola itself. In addition, neither the MPLA nor UNITA wanted to risk destroying the industry that the country now relied upon, and consequently, increases in investment and production continued throughout the period of the civil war (Shankleman, 2006: 100-101).

Angola joined OPEC in 2007, and held the organisation's presidency in 2009. In that year, Angola's oil production had reached 1,820,000 b/d, making the country the largest oil producer in Africa and placing it as the seventh highest oil producer among OPEC members. Most of Angola's oil production continues to come from offshore blocks, partly because onshore exploration was limited because of the civil war. Nevertheless, there are some proven onshore reserves around the northern city of Soyo and in the disputed enclave of Cabinda (Energy Information Administration, 2010: 2). However, because of the limited onshore presence that international oil corporations have, there are few incentives for them to become involved in local development activities (Shankleman, 2006: 110). Despite this, BP themselves acknowledge that:

“part of the challenge of peace is to ensure that the massive investments made by companies such as BP result in social and economic benefits for Angola as a whole. This ... requires that companies, including BP, are open to partnership with government, civil society and international organisations to play their role in Angola's development” (BP, 2002b: 24).

‘Partnership with government, civil society and international organisations’ would constitute co-evolutionary interaction, and speaking in November, 2004 on business ethics,

“Lord Browne [of BP] said that the purpose of business gave it a distinct, unique and indispensable role in society that embraced ... contributing to the development of countries” (BP, 2004b: 5).

Consequently, international oil corporations, either individually by engaging in institutional co-evolution, or in collusion, have a duty to contribute to Angola's development in six ways:

- 1) Promoting transparency in Angola (Shankleman, 2006: 110). Sound economic governance is one of the minimum requirements to encourage development (Grobbelaar and Sidiropoulos, 2002: 29). Various proposals have been put forward by governments, private business, international organisations, NGOs, and academics in recent years to improve global economic governance. One of these proposals is the self discipline of economic actors such as international oil corporations, and this would embrace transparent accounting (Schirm, 2004: 7-8). In Angola, where oil revenues are the key for future development, oil corporations have an obligation to promote revenue transparency in order to discourage rent-seeking behaviour. Oil revenues that are used for unproductive activities could be diverted to, for example, a poverty alleviation program (Shankleman, 2006: 110). Furthermore, an international oil corporation should provide high quality financial disclosures anyway, as this is one of the key responsibilities that the board of directors have. Corporate governance codes around the world, including the Cadbury Report and the OECD Principles, require the board of directors to provide shareholders and other stakeholders with high quality financial disclosures (UNCTAD, 2006a: 3).
- 2) Developing a strong civil society in Angola. For a country like Angola that has been embroiled in civil war for most of its time since independence, developing a strong civil society is vital for sustained peace (Shankleman, 2006: 110). This is because the participation of a strong civil society creates a middle ground when negotiating in the peace process. Therefore, the political leadership on both sides of the conflict can be urged to compromise (Grobbelaar and Sidiropoulos, 2002: 13). Indeed, Angola's transition to a peaceful democracy largely depends upon the willingness of the MPLA and UNITA to cooperate and compromise (El-Khawas and Anyu Ndumbe, 2006: 59). Oil corporations can contribute to this by delivering social investments.
- 3) Increasing employment opportunities for locals in Angola. This is important

since it is a country that has a long history of indigenous people being denied access to education, and subsequently, locals lack the necessary skills to engage in meaningful employment. Oil corporations can contribute by training locals to enable them to engage in employment in oil sector operations, as well as ensuring that the maximum possible level of locals are employed within those operations.

- 4) Increasing opportunities for locals in Angola to make a living by business, commerce, and agriculture. Oil corporations can achieve this by contributing to social investment funds which can help to support livelihoods.
- 5) Engaging in impact assessments in Angola. International oil corporations have extensive experience in engaging in environmental and social impact assessments, and these are necessary to ensure that corporations limit the impact of their operations upon local environments and the local community (Shankleman, 2006: 110-111). Recently, the environment has moved up the African corporate responsibility agenda. Environmental sustainability is important because locals still need to sustain their livelihoods in the areas where international oil corporations operate, and the oil sector impacts local environments through exploration, drilling, and transport. For example, the practice of flaring gas in the Niger Delta pollutes the local environment, which destroys crops resulting in negative effects upon local agricultural livelihoods (Hayes, 2006: 96-97). In Angola, offshore operations may pollute local fishing grounds, affecting the livelihoods of local fisherman, and if the proven onshore reserves are extracted local agriculture will be affected.
- 6) Investing in the Angolan transportation infrastructure. Angola is a country that has seen railway lines severely damaged during the civil war, or has allowed them to decay due to a lack of maintenance or modernisation. Angola is also a country in which many roads have been mined, de-mined and then re-mined during periods of conflict, relative peace, and then resumed conflict, together with a lack of road maintenance (Hodges, 2004: 108). This is not a problem that is unique to a post-conflict environment such as Angola. Many countries in Africa lack an adequate transportation infrastructure, and this is a resource that supports economic development and corporate activities (Ahunwan, 2003: 37-

38). Therefore, international oil corporations must have an interest in rebuilding the transportation infrastructure in order to transport resources to and from their operations, and locals can also benefit from the improved transportation links. These six contributions to Angola's development would be achieved by engaging in institutional co-evolution. However, one could argue that international oil corporations have no role to play when it comes to contributing to Angola's economic development because, for example, they would have little or no influence upon the government of a sovereign nation. However, there is evidence to suggest that this is far from the case. As Cohen (2004: 9) explains, when the UN attempted to intervene in the Angolan civil war in February 2001, the Secretary General sent his envoy to meet with international oil corporations operating in the country. This was because international oil corporations operating in Angola could, according to UN Undersecretary General for Africa Ibrahim Gambari, contribute to peace initiatives due to the fact that they had a significant "leverage on the government". He went on to state that "the government will listen to them".

Clearly therefore, international oil corporations can make an important contribution to Angola's economic development because of the significant influence that they have on the government. Hypothetically therefore, if an international oil corporation attempts to engage in institutional co-evolution in Angola, the country might take the influences on board because of the significant leverage that such businesses have upon the Angolan government. Nevertheless, as Doctor Gbadamosi comments:

*"I suppose one of the issues would be ... if, as an organisation, ... we have to pay so much tax to the government, and it is not our responsibility to do that, why should we be then putting a lot more of our resources in getting the [institutional] environment right? I think that is one of the questions that organisations should probably be asking at the beginning"* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Therefore, why should BP put resources into getting the Angolan institutional environment right? For international business activity, the institutional environment becomes increasingly more important over time. This is because long-term investment is dependent upon the development of complex institutions that can deal with the increasing uncertainties that arise from increasingly more complex forms of exchange (Cantwell *et al*, 2010: 571). Consequently, one could argue that it is in BP's long-term

interest to engage in institutional co-evolution in Angola and elsewhere, so that the institutions in the countries where they operate are strong enough to deal with the complexities and uncertainties that those environments may contain.

### **7.8: Discussion.**

Angola's oil reserves represent an L advantage for the attraction of inward FDI. Even though the country has suffered from a long civil war, having extensive offshore reserves means that oil exploration and drilling is not affected by conflict on land. Nevertheless, the case of Angola highlights the problems that exist in African oil-producing states that largely encompass having a weak institutional environment.

One of the legacies of the colonial era is the lack of educational opportunities for Angolans. Angola's institutions and all the sectors of the economy were left with a skills gap that was hard to fill when Portuguese expatriates left the country. Angola's legal regime is complex and requires an adequate institutional capacity to manage it. However, the MOF suffers from a lack of sufficiently educated staff members, whilst a limited receipt of reimbursement from the Angolan government provides Sonangol with an incentive to be less than transparent when it comes to passing on the tax payments that are due to the government.

The major task that Angola faces now, as a post-conflict country, is the promotion of economic development which should prevent future conflict. This can be achieved by, firstly, addressing socio-economic needs at the macro-level. This involves promoting economic diversification so that local communities can sustain their livelihoods and the country can reduce its primary commodity dependency, helping to develop a strong civil society, and infrastructure reconstruction. Secondly, developing good quality institutions can be promoted by, for example, international oil corporations enhancing transparency<sup>127</sup> to change the overall perceptions concerning governance. Whether BP engages in such institutional co-evolution will be assessed in the next chapter.

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<sup>127</sup> See section 8.5.

## **Chapter 8: Oil MNCs acting as change agents in Africa, with particular reference to Angola.**

*“There is so much companies can do in ... Africa in terms of improving the state of the ... institutional environment”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

*“[The responsible corporation should] ensure transparent, accountable, and strategic engagement with government”* (Warhurst, 2011: 69).

### **8.1: Introduction.**

According to Frynas (2009: 139) the example of BP in Azerbaijan represents ‘by far the most wide-ranging attempt by a single company to address governance shortcomings’, and consequently, engage in institutional co-evolution. By actively co-operating with the Azerbaijani government, BP was able to provide expert advice upon the management of Azerbaijan’s state oil fund together with the country’s oil revenues. Of the 30 or so resource rich developing countries that have signed up to the EITI,<sup>128</sup> only Azerbaijan is deemed to be in compliance with the EITI principles (Wiig and Kolstad, 2010: 183), possibly helped to a significant degree by BP. Therefore, BP can act as an effective agent for change, and indeed has experience of doing so. In fact, BP themselves state that:

“business has always been an important agent of change. Companies are part of society. They reflect ... potential and ... embody an inherent belief in ... positive change. [Furthermore,] a wider role is expected of large companies [and] responsible business now has a clear choice whether to engage to be both part of the debate and part of the solution” (BP, 2000: 4).

The question arises as to how successful BP’s attempts have been to address governance shortcomings in Angola and other African oil-producing countries. Kostova (1999: 308) considered the transnational transfer of strategic organisational practices within MNCs. Based upon the idea of the contextual embeddedness of the process of transfer; it is proposed that three factors relate to successful transfer, namely the country, the

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<sup>128</sup> See section 8.5.

organisation, and individual actors. However, Kostova only considered internal transfers of O advantages to corporate subsidiaries globally. Nevertheless, it is highlighted that scholars have acknowledged how important strategically it is to transfer organisational practices within MNCs, and that these transfers are rarely smooth and/or successful. However, according to Wiig and Kolstad (2010: 184), influencing the Angolan government so that they improve the institutional environment to reduce rent-seeking behaviour does ‘not appear to be an important part of oil companies’ portfolio of CSR activities. Governance issues are hence not a priority for oil companies in Angola’.

This chapter develops Kostova’s idea, but rather than focusing upon organisational practices, it is the organisational business principles that are the subject of whether successful transfer is possible, and not to just within the MNC but to the wider institutional regime. Therefore, this chapter will assess whether governance issues are a priority for oil companies in Angola and Africa in general. There will be a focus upon BP, although other Western oil firms will be mentioned where appropriate. The issues under consideration will be BP measuring the impacts of their operations, whether they disappoint stakeholder expectations, revenue transparency, the problem of liability of foreignness, oil MNCs contributing to social projects, and the importance of the social consequences of environmental degradation. Finally, whether oil MNCs engage in strategic CSR will be considered, before discussing the findings to see if BP can successfully act as an agent for change.

## **8.2: The context: learning from experience.**

BP has been embracing macro-level socio-economic needs for a long time,<sup>129</sup> and they clearly believe that they have learnt from their experience in embracing social concerns. In their 2007 Sustainability Report, under the heading ‘learning from experience’, they state that:

“BP is ... working to ensure that appropriate consideration is given to social issues, such as worker welfare, including child and forced labour; security and human rights; community health; community engagement; community investment; involuntary resettlement; and indigenous people”,

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<sup>129</sup> See section 5.5.

suggesting that they have and/or are learning from their experience in implementing social issues. Under the same heading, concerning their Environmental Requirements for New Projects (ERNP),<sup>130</sup> they state that:

“the requirements should ... support continuous improvement in operations where we have been active for many years. For example, an ERNP peer review process for a pipeline replacement project at Wytch Farm,<sup>131</sup> UK, highlighted that ecological priorities change as does the technology available for mitigating potential impacts. This resulted in a better solution for the project and the environment” (BP, 2007b: 14).

However, the question is whether BP has really learnt from this long-term experience and whether it does implement CSR principles effectively. The CORE Coalition anonymous source refutes the claim by BP by saying that:

*“BP clearly doesn’t deal with environmental and social abuse effectively. I think it clearly hasn’t learnt from its experience, so I don’t think anyone could reasonably ... say that BP was a company [with] which a new company would be in a worse position in, in terms of its performance [in addressing environmental and social issues]”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

This suggests therefore, that Chinese firms would not be in an inferior position in comparison with BP when it comes to embracing sustainability issues because BP has not actually learnt from its extensive experience. Evidence for this will be investigated in the next chapter. Nevertheless, as Doctor Gbadamosi comments:

*“I think most organisations that work in that part of the world [Africa] are very clear how they can deal with the [institutional] environment. I think most of the time, in my opinion, it’s just about the will. It is the will to do it or the .... governmental constraint, because of the institutional high level of corruption that we have in the system. [Furthermore,] when you talk about businesses like the oil sector ... I’m not sure the African people are benefitting anything from that sort of businesses. I think ... it’s largely for now the elite and the government, officials of bureaucracy, and everything has been sunk in there, and everything has been lost in there, ... it’s not going down the channel to the people yet from those type of businesses”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

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<sup>130</sup> BP launched the ERNP in 2006. Developed primarily for major projects associated with oil and gas where the potential for environmental risk is often the greatest, the requirements also apply to wind farms, biofuels and to smaller projects that might have the potential for similar levels of impact (BP, 2007b: 14).

<sup>131</sup> Developed by BP to be one of Western Europe’s largest onshore oil fields, Wytch Farm is located under Poole Harbour and Poole Bay in Dorset, one of the most environmentally sensitive areas of the UK (BP, 2003a: 1).

This view is confirmed by Shaxson (2007a: 1132), who outlined that African elites act with impunity to abuse the public good to advance their own narrow interests, and Bates (2008: 104, 124), who stated that in Africa, bureaucracies ‘that had been created to facilitate the lives of the citizens began instead to undermine their welfare. Its members began to feed themselves by consuming the ... money of those they once had served’. In Angola specifically, Bates stated that whilst ‘the MPLA [government] speaks of serving the needs of the people, it in fact channels little of Angola’s oil wealth to them’. Therefore, we will investigate these issues because, as the CORE Coalition anonymous source states:

*“There's no international law for these companies, there's no governance of these companies. You have poor countries who are prepared to compromise on environmental and social standards for things like foreign direct investment and plenty of wealthy countries who are quite happy to receive the funds and then the profit at the expense of the breach of these environmental and social standards”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

Indeed, as we saw in Part 2, oil firms do endorse global initiatives but these are only soft laws, and as Frankental (2001: 22) states, there are no compliance frameworks in place to comply with these international standards which are not subject to hard law. Furthermore, as Jonathan Samuel, the Social and Community Development Manager at Anglo American, states:

*“Behaving in a responsible manner is critical to securing that formal and social licence to operate”* (Samuel, J., email interview, 10<sup>th</sup> December, 2010).

Indeed, pressure should be put on firms to enact their social responsibility initiatives because of the potential comparative advantage of business over governments, NGOs, or other organisations to solve certain social problems. Because of competition in the marketplace, firms develop unique competencies that give them not just a competitive advantage over other firms, but in addition a comparative advantage over governments, for example, in responding to some social problems. BP provides a good example of this, because BP had cost, expertise, and technical advantages over local government in Zambia when it came to providing solar-powered refrigerators for the storage of anti-malaria vaccines (Hess *et al*, 2008: 276-277).

### **8.3: BP's implementation of CSR principles today: measuring impacts.**

In a speech on the 8<sup>th</sup> November, 1999; CEO Browne highlighted the key drivers for BP's CSR by saying their first driver is that:

“people ... expect them to behave as leading citizens in a complex world. ... The second driver is also about expectations. Internal expectations”.

Browne continues on this theme, concerning their employees receiving job satisfaction:

“We can offer good money, but of course for someone of real talent that isn't the issue. They want a great job - which means a job which offers them substantive personal progress and which gives them a chance to contribute to the progress of society” (BP, 1999).

However, refuting this claim, the CORE Coalition anonymous source emphatically states that CSR is:

*“entirely about protecting the brand, [although] that's not saying that BP or another company isn't considering environmental and social issues from another lens or prospective”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

This view has to be believed since, as Hamann and Bezuidenhout (2007: 107) reiterate, ‘reputation assurance ... is ... commonly identified as [an] important [driver] of CSR’. Nevertheless, if BP does consider macro-level socio-economic needs from another perspective, perhaps they attempt to measure the impacts of their operations and then implement sustainability, in the same way that Anglo American does with SEAT.<sup>132</sup>

To measure their social and environmental impact, BP (in conjunction with other firms) has developed an accounting tool in an attempt to evaluate the extent to which BP's operations conform with the principles of sustainable development. This accounting tool is the Sustainability Assessment Model (SAM), which attempts to track the economic, resource, environmental, and social impacts of projects over its life span, and translate such impacts into a monetary measurement. SAM is a form of full-cost accounting, which attempts to define the focus of the costing exercise, specify the scope and/or limits of analysis, identify and measure external impacts, and then cost the external impacts. However, Baxter *et al* (2004: 113-114, 118-119) believe SAM should

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<sup>132</sup> Anglo American's Socio-Economic Assessment Toolbox to help them understand the impacts of their operations (see Section 5.15).

only be the first step in a project's evaluation. To use SAM to see if a project is sustainable, an operational definition of sustainability is required. In addition, whilst SAM offers an elegant visual presentation of external impacts in the form of a graph, for example, it is hard to make sense of the graph in isolation. Baxter *et al* feel that the data should be converted into a ratio which would provide a better indication of a project's nearness to sustainability. Despite these criticisms, SAM is a worthwhile tool to estimate the MVPE.<sup>133</sup>

Nevertheless, some companies give significant resources to CSR in some countries, and yet relatively that same company devotes precious little resources to CSR in other countries. BP provides a perfect example of this, due to the fact that BP has spent millions on CSR, in particular on social initiatives, in Angola; and yet at the same time BP is the greatest investor in Algeria, but devotes precious little resources to its CSR activity there. Perhaps the reason for this differential is stakeholder pressure, or it could be that in the other country where little is spent on CSR, that host country's government engages in significant social and/or environmental policies so that the company feels there is relatively no need for them to attempt to transfer their CSR principles there (Frynas, 2009: 52-53). Nevertheless, perhaps relying too heavily upon SAM means that BP is unable to identify things that cannot be measured in a financial sense. Jonathan Samuel states that Anglo American attempts to:

*“measure and report on our good citizenship principles using a wide range of metrics, not just SEAT, ... [because] the motivations for responsible business are not primarily monetary. [Anglo American does] value aspects of our CSR ... performance in financial terms when it makes sense, but many things cannot be reliably valued. For example, what is the value of increasing community trust? We don't believe this can be calculated in a financial sense, although we certainly believe it is valuable”* (Samuel, J., email interview, 10<sup>th</sup> December, 2010).

Increasing community trust is indeed an issue that cannot be calculated in a financial sense, and therefore, concentrating upon making a monetary valuation to assess firm impacts, which arguably BP does, may mean that such social issues get neglected.

#### **8.4: Disappointing stakeholder expectations.**

The implementation of CSR principles to address macro-level socio-economic needs often disappoints the expectations of stakeholders. Amongst oil MNCs, BP took the

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<sup>133</sup> Attaching a monetary valuation to physical effects (see Section 5.15).

lead by speaking about the need for international action on climate change in the late 1990s. However, BP has, since becoming more engaged in the US market and acquiring US assets, tended to now stop speaking out on international action (Tindale, 2004: 53). This shift represents just one way that BP disappoints the expectations of stakeholders.

BP is perhaps the firm with the highest CSR profile of all the major oil firms that target green groups and NGOs. Several NGOs acknowledge BP's endorsement of human rights policies, and acknowledge BP's transparency by the fact that BP allows public scrutiny of its operations with reports of their social and environmental impacts (Banerjee, 2007: 55). Transparency is indeed important in the oil sector and particularly important when considering oil investment in Africa because the oil sector there is prone to abuse and mismanagement due to the high amounts of potential revenues at stake and the enclave nature of the sector with few people involved. Efforts to enhance transparency can therefore be vital for changing the overall perception about governance in a country (Cosse, 2006: 10-11).

Environmental impacts are particularly significant for a firm engaged in natural resource extraction because that firm must undertake a serious and systematic review of its operations to protect biodiversity where they operate. BP's approach involves their biodiversity action plan, which is applied at site and regional levels, and is developed after dialogue with relevant stakeholders and partnerships with local groups and experts to 'involve consideration of wide impacts' (Henriques, 2004: 31). However, some NGOs and other stakeholders have complained about BP's operations. For example, at the Greenwash Academy Award Programs in 2002, CorpWatch and Friends of the Earth awarded BP the 'Best Greenwash Award' for greenwashing.<sup>134</sup>

In 2000, BP strategically positioned itself as a leader in social and environmental responsibility with the £135 million 'Beyond Petroleum' public relations campaign<sup>135</sup>

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<sup>134</sup> The term 'greenwashing' involves trying to convince people that what you are doing is good for the environment. However in reality, your activities damage the environment (Ongkrutraksa, 2007: 374).

<sup>135</sup> BP rebranding itself as 'Beyond Petroleum' was part of an effort to portray themselves as an energy company, not just an oil company. As part of 'Beyond Petroleum', the company adopted a logo with a green, white, and yellow sunburst named after Helios, the ancient Greek sun god. This was to highlight that it was incorporating solar energy within its portfolio (Beder, 2002: 26). According to Christiansen (2002: 14), 'this bold ... public-relations move should be seen firstly as an effort to extol BP's genuine concern for the environment. Moreover, it was most likely intended as a symbol of its readiness to assume the responsibilities of a progressive energy company in the fight for ethical business principles'.

(Banerjee, 2007: 55). Indeed, BP has accepted the inevitability of the Kyoto Treaty, and has worked to shape the climate change agenda (Frynas, 2009: 27). However, some commentators, such as Munshi and Kurian (2007: 438) dismissed 'Beyond Petroleum' as a marketing tool to give BP an edge over its competitors.<sup>136</sup> Nevertheless, despite the green positioning and the public backing of the Kyoto Protocol, the core business of BP remains oil exploration and drilling (Banerjee, 2007: 55), perhaps to the disappointment of concerned stakeholders. The trap for a firm such as BP is that spending on public relations campaigns such as 'Beyond Petroleum' has the effect of raising stakeholder expectations to such a high level that the firm is not capable of meeting those expectations (Ongkrutraksa, 2007: 375). This is what the author of this thesis calls the 'CSR expectations trap'. Therefore, is BP stuck in this trap?

With the initiation of the 'Beyond Petroleum' campaign, BP stressed that they believed in alternative energy (Murphy, 2002: 1), and they have invested in renewable energies such as wind and solar power (Frynas, 2009: 28). Expenditure on research and development for such renewable energy sources has the potential to have social value in excess of its cost. Value of external benefit credits to BP can enhance firm reputation by the social value added by such non-market activities (Heal, 2008: 222). However, between 1995 and 2001 BP spent just US\$200 million on solar power. To highlight how small this expenditure was, this amount was less than BP's annual advertising budget. In addition, BP spent US\$8.5 billion in 2001 alone on fossil fuel exploration and development. Indeed therefore, exploration remains a core business, and low expenditure on renewable energy disappoints stakeholder expectations. Murphy (2002: 1) points out Fortune magazine's comment on this situation, 'if the world's second largest oil company is beyond petroleum, Fortune is beyond words'.

Despite the protests of local communities in the Arctic and environmentalists, BP stands to make healthy profits from drilling in the Arctic's coastal plain as the Arctic National Wildlife Refuge in Alaska is opened up to oil drilling. This is one example of the fact that it is likely that so long as drilling is profitable, and as long as their

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<sup>136</sup> Portney (2008: 266) refers to the USA's General Electric rebranding itself as the company with 'Ecomagination' together with BP's metamorphosis into 'Beyond Petroleum', and states that 'in both of these cases, it is difficult to tell whether there was any significant change in corporate philosophy, or whether these companies have merely attempted to give new names to their familiar activities'. Portney goes on to highlight that whilst 'BP has invested money in some alternative forms of energy, it still derives the overwhelming share of its revenues and net income from the sale of gasoline'.

competitors do so, drilling will also remain a core business (Banerjee, 2007: 56), again disappointing stakeholder expectations as community protests are ignored. Indeed, Doane (2004: 82) believes that for a firm that is often hailed as the most socially and environmentally responsible oil firm, BP remains intent on increasing oil production, and Doane also feels that BP 'sees no immediate profitability in renewable energy'. In fact, BP is amongst the most ambitious oil firms in the world when it comes to increasing their targets for the extraction of oil and gas (Monaghan, 2004: 148).

BP publicly committed itself to reducing greenhouse emissions by 10% in 2010 (Banerjee, 2007: 56). This followed the stand that BP took on climate change in 1997 by acknowledging the scientific evidence behind the Intergovernmental Panel on Climate Change forecasts and the subsequent appropriateness of reducing greenhouse emissions (Heal, 2008: 10). BP did achieve this target nine years ahead of schedule. On the surface this may look impressive. However, this masks the fact that committing itself to reducing greenhouse emissions by 10% in 2010 was a win-win scenario for BP. This is because the emissions reductions project cost just US\$20 million, while a US\$650 million cost saving resulting from increased energy efficiencies was achieved as a direct result of the emissions reductions project (Banerjee, 2007: 56).

One efficiency gain was in waste reduction. Oil fields have natural gas at high pressure over them. This is called associated gas, and BP had previously burned this gas off (flaring gas), producing large scale greenhouse emissions. BP then discovered that capturing associated gas meant that it could be transported and then sold, providing a new revenue source that exceeded the cost of capture. In effect, BP realised in the emissions reductions project that the operating costs, or private costs, were less than the social costs of its activities, and they attempted to bring them into line<sup>137</sup> (Heal, 2008: 10-11, 24). As a result BP was able to internalise some externalities. Banerjee (2007: 56) considers that subsequent emission reduction targets would involve much higher costs, and energy efficiencies may not be so great. Therefore, it may be interesting to see if BP would be willing to commit to such targets in the future. If not, stakeholders would once again be disappointed.

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<sup>137</sup> Bringing private and social costs into line is attributed to Arthur Pigou. When private and social costs are the same, or close to being the same, markets can then work well for society with a greater alignment of corporate and social interests (Heal, 2008: 8).

However, one must remember that some of BP's greenhouse emissions are passed on to the consumer. BP produces and sells oil and gas, both of which are major sources of greenhouse emissions. Once sold, they are not used by BP, they are used by BP's customers who then become directly responsible for the emission of greenhouse gases. BP is not directly responsible for the emissions once the product is sold to the consumer, but they are clearly indirectly responsible by the fact that they play a major role in the production. This highlights the difficulty of measuring corporate responsibility, and how easy it is to pass on responsibility (Heal, 2008: 223).

Nevertheless, the academic evidence so far suggests that BP today places a strong emphasis upon environmental issues relative to social issues. Therefore, BP has decided today to focus upon the climate change agenda, but this is influenced by the fact that they are a corporation based in a developed country. Consequently, this raises questions as to the applicability of focusing upon the climate change agenda when BP invests in developing countries, as a developing country may prefer social issues to be focused upon. As Professor Frynas comments:

*“BP [has] decided to tackle the climate change agenda. Whereas in developing nations ... you have very, very different priorities”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

This comment suggests that placing social issues higher on the agenda is more applicable when investing in developing countries, and perhaps, as will be seen below, other environmental issues should be embraced other than the climate change agenda.

Another way that stakeholder expectations may be disappointed is the fact that CSR strategies may be more beneficial for corporations than for the very society that it is supposed to benefit. Corporations are not legally required to document their CSR principles. Therefore, when they do document their CSR principles, corporations can gain enhanced reputation (Banerjee, 2007: 147). BP certainly documents their CSR principles, and as a result BP does have a relatively strong CSR reputation and they are prospering as a result (Vogel, 2008: 205). Consequently, if Hamann and Bezuidenhout, (2007: 107) are correct in their assessment that reputation assurance is one of the most important drivers of CSR, being a good corporate citizen and reporting that they are is all about protecting the brand.

### **8.5: Revenue transparency.**

Oil MNCs, NGOs, and policy-makers are now all in agreement that revenue transparency is the priority initiative to address governance shortcomings in developing countries that suffer from the resource curse. The primary expected benefit of revenue transparency is a reduction of corrupt practices (Frynas, 2009: 140-141), and represents a micro-level initiative to influence the institutional environment, which would help in promoting a developmental state rather than a rentier state.<sup>138</sup> As Henriques (2007: 137) states, the transparency of revenues from firms to governments should help to promote a reduction of governmental corruption as it is thought of as its solution. This is important because corruption involves actors abusing their powerful positions. BP feels that:

“Transparency and good governance reflect our values and our commitment to generate mutual advantage. We have to understand the economic and social impact of the investments we make. Without care, that impact can be negative, shifting relative prices and disrupting the established balance of local economies. The ‘resource curse’ is not inevitable and we have an interest and role in trying to ensure that the wealth created through the development of resources is used effectively” (BP, 2006c: 40).

Furthermore, BP believes that:

“Governments have the primary responsibility to create conditions of growth for their countries. We believe that, by unlocking the value of oil and gas resources, we can help provide the financial opportunity for countries to develop. Governments decide how the ensuing revenues are used. However, we can provide support and assistance to strengthen national capacity in legal, financial and other institutions. Our approach to these major issues is to form partnerships, particularly with non-governmental organisations, multilateral organisations and government departments. These organisations comprise people who have knowledge and experience that complement our own. For example, we ... are supporting the strengthening of the rule of law in areas of conflict and helping humanitarian aid in post-conflict Angola. We support initiatives on transparency of payments to governments. These are not issues that can be remedied quickly. They require concerted effort over many years with partners who may hold different views from our own. They are, however, an integral part of BP’s plan for future business success” (BP, 2002b: 15).

BP’s approach for promoting revenue transparency and management is, as they explain:

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<sup>138</sup> See section 1.2.

“the quality of a government’s revenue management is critical in determining whether opportunities for development are seized or squandered. While we recognise the primary role of sovereign governments in these matters, we support sound revenue management in two ways. First, we support transparency – clarity on how much money is flowing from companies to governments and from governments into public services and investment. Second, we help promote understanding of issues linked with resource-rich economies and sharing of best practice in addressing their challenges” (BP, 2005b: 52).

Assuming that this approach defines the way that BP implements their revenue transparency principles, the question is does it provide a model that can be adopted elsewhere?

Amongst oil MNCs, BP pioneered revenue transparency (Frynas, 2009: 141), because they unilaterally decided, in February 2001, to publish information annually on its production, the shares transferred to Sonangol under their production sharing agreements (PSAs), and their tax payments to the Angolan government (Hodges, 2004: 168). This was not just to make transparent their payments to Angola because BP announced that it would reveal its payments to oil-country governments worldwide (McMillan, 2005: 163), all to promote revenue transparency in their accounts. A year later (Hodges, 2004: 168), as Shaxson (2007b: 216) highlights ‘the Angolans reacted with fury. Their riposte came from the state oil company Sonangol, which threatened – in a letter copied to the other oil companies in case they missed the point – to terminate BP’s contract in Angola’. It was the president of Sonangol, Manuel Vicente, who wrote this letter which accused BP of breaking confidentiality agreements. The letter also stressed that Sonangol hoped to retain the good relations that exist with all the oil firms engaged in operations in Angola, and in order to maintain this relationship, other oil companies were strongly urged not to adopt similar actions (Hodges, 2004: 168). The CORE Coalition anonymous source commented upon BP’s attempt to be transparent, echoed by the view of Professor Frynas (see below) by saying that:

*“some companies do make difficult decisions that then means they're put in a position where countries make it impossible for them to be transparent about what they're doing”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

Despite the fact that BP were subsequently not expelled from Angola, none of the other major oil MNCs followed suit by making transparent their payments to host countries.

However, BP's unilateral action on revenue transparency was considered a major step forward by NGOs, most notably by Global Witness, who had been campaigning for transparency in the oil sector (Frynas, 2009: 141). Commenting upon whether BP had anything to be gained by promoting transparency, Professor Frynas stated that:

*“there was potentially a genuine willingness to come forward and to either respond to critics including groups like Global Witness or themselves to be more proactive and show that yes we are, for whatever reason, becoming more transparent. But this hasn't provided the best practice as an example to be followed by others or even to be continued by [BP] all around the world”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Commenting upon why is this the case, Professor Frynas states that:

*“it's difficult to find consensus between companies and ... you have free riders [who] can potentially benefit if some companies do it but others don't”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Commenting upon the transfer of organisational principles to address such issues of transparency, Professor Frynas states that:

*“I don't think in terms of corporate governance, including transparency, that there is much best practice established or implemented”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Consequently, BP's approach for implementing their revenue transparency principles does not provide a model that can be adopted elsewhere either by themselves or other companies. Furthermore, BP's Angolan experience in attempting to promote transparency does highlight the collective action problem that exists when attempting to implement such an initiative to address governance shortcomings. This is the fact that all companies would benefit from addressing governance shortcomings. However, an individual company may be unwilling to undertake such an initiative because of the potential of that company suffering as a result (Frynas, 2009: 141). As Professor Frynas states:

*“There's a lot at stake [and] you could potentially enrage some actors, particularly host governments”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

This is indeed what happened in Angola, as noted above. Nevertheless, if collective action was engaged in, where all companies implemented such an initiative, such action

may be more successful (Frynas, 2009: 141). Professor Frynas commented upon BP's Angolan experience by saying that:

*“It didn't go very well and it's very, very clear that it will only work with collective action, and ... it's a long way from that”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Commenting upon whether a company should try to make things more transparent by acting alone or in some kind of with cooperation with other bodies, the CORE Coalition anonymous source states that:

*“there's a clear need for a cooperative effort both nationally, regionally, and also internationally”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

Nevertheless, BP's experience in Angola was a major step forward because it partly informed the launching of the EITI in 2003 (Frynas, 2009: 141). As BP themselves state:

“BP believes that transparency is important to ensure that international investment in emerging market economies provides benefits to the community as a whole. We recognise that this is a challenge and are therefore supportive of transparency initiatives that develop corporate and government accountability while respecting legal and contractual positions on confidentiality. At the 2002 World Summit on Sustainable Development in Johannesburg, UK prime minister Tony Blair proposed the [EITI]. Sponsored by the UK Department for International Development, the initiative has involved a wide range of stakeholders, including BP, in looking at ways to achieve greater transparency in payments and contributions made by companies and revenues received by governments for natural resource extraction” (BP, 2002b: 5).

The intention of the EITI was to improve revenue transparency for payments made to host countries by the extractive industry sector, limiting corruption.<sup>139</sup> The EITI is a coalition of firms, state governments, civil society groups, and other organisations that aims to address governance shortcomings in resource-rich countries by promoting the publication and verification of company payments and government revenues in the extractive industry sector. The major strength of the EITI is that it believes that it should involve all the companies supporting the initiative that are engaged in operations in a member country, and this would solve the collective action problem that was experienced by BP in Angola. A number of African countries have signed up to the

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<sup>139</sup> See Appendix 5 for the EITI principles and criteria.

EITI principles, including oil-producing states such as Equatorial Guinea and Nigeria (Frynas, 2009: 141-143). However, according to Isaksen *et al* (2007: 45) the EITI has ‘been pushing for openness’ ... ‘in the Angolan case, but with very little success’, and indeed, Angola has not signed up to the EITI principles.

In recent reports, BP seems to promote the example of Azerbaijan to highlight success in their actions instigating the EITI and their continuing support for it. For example:

“Towards the end of 2004, a Memorandum of Understanding (MOU) setting out the process for implementing the EITI in Azerbaijan was signed by the government, the state oil company SOCAR, foreign oil companies and NGOs. BP is committed to ensuring this process moves forward and is supporting it with the publication of relevant data and information on our activities” (BP, 2004b: 49).

Another example states that:

“During 2005, we participated in the International Advisory Group for the EITI. Azerbaijan is one of the leading countries in implementing EITI and there we were active in developing a [MOU] on transparency of aggregate payments from extractive industry companies to government. In [the] BP Azerbaijan Sustainability Report 2004, we disclosed individual payments and we plan to disclose our individual payments in the future. In March 2005, the Azerbaijan government publicly disclosed its first reports on the revenues received from the extractive industries in 2003 and early 2004” (BP, 2005b: 52),

suggesting that the approach of BP has certainly been successful in promoting revenue transparency in the Azerbaijani government. However, the relative success of BP’s approach in one country does not mean that it is necessarily applicable to other countries, as the case of Angola highlights, and despite this,

“BP will continue to work within the bounds of the EITI to ensure that this historic opportunity is developed to the full” (BP, 2004b: 498),

which perhaps suggests that BP does feel that it is a model that can be adopted everywhere. Nevertheless, as Professor Frynas comments:

*“At the moment ... you only have the [EITI] which doesn’t really go anywhere near enough”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

This is because the EITI assumes that revenue transparency will provide benefits for member countries, and this is far from clear. This is due to the fact that according to

Frynas (2009: 154-156), studies on transparency that have been undertaken demonstrated that transparency benefits arise from the transparency of government spending and not from transparency of government revenues. Consequently, the assumption that a transparency of revenues flowing from firms to governments would provide positive benefits has not been verified. Therefore, the EITI is unlikely to be effective because it does not focus upon the government spending of revenues.

### **8.6: Liability of foreignness.**

Orr and Scott (2008: 566) considered what they termed the institutional exception, a construct that employs organisation theory. In an information-processing view of organisations, exceptions describe situations where an actor lacks the sufficient information necessary to perform a task. Following-on from this, the term institutional exception describes a situation where a knowledge gap about certain requirements interferes with implementation. Institutional exceptions can result from ignorance of local conditions which can be grounded in differing cultural-cognitive elements, when an entrant (for example, a firm) and a host country find themselves on differing wavelengths. The defining characteristic of institutional exceptions is the naivety of the offending actor. It can result not from intentional incorrect implementation, but from well intentioned interventions that prove to be non-applicable. The learning capacity of a MNC may give them the ability to operate in varieties of host country macro-level environments, and may give a MNC the ability to solve the problem of institutional exceptions which can reduce their liability of foreignness (Cantwell *et al*, 2010: 578).

Many attempts to implement CSR prove to be ineffective because donations of ‘philanthropic gestures’ such as schoolbooks or mosquito nets to local communities are often carried out without prior consultation with that community and/or development specialists about what is actually required. For example, BP distributed Asian-made condoms in Angola as part of a HIV/Aids campaign. However, the condoms that were distributed turned out to be not large enough for African males. This raises the issue of the liability of foreignness. This is when foreigners, due to inadequate local knowledge, make unwarranted assumptions about what is required. Part of this lack of understanding can be due to what a firm has habitually done over time. For example, when BP wanted to educate their managers about issues connected with development and sustainability such as biodiversity and global warming; rather than turning to a

development institution, BP habitually turned to the Judge Management Institute at Cambridge, a business school (a built-in preference within strategic choice analysis).<sup>140</sup> In addition, BP's asset managers are rotated every four years between their subsidiaries in different countries. This means that they cannot gain long-term experience of local content requirements in a specific host country; and furthermore, they may lack a long-term commitment to the local community (Frynas, 2009: 121, 127). In comparison, as Doctor Gbadamosi states:

*“ChevronTexaco [the company that has had the most experience in Angola]<sup>141</sup> in my opinion, from what I know on the ground [having] visited most of oil producing areas in Nigeria, ... they're the ones who have warmed most significantly and impressively to the rural and local population in the communities where they operate. Because what they have done is ... they have identified those developmental issues as very basic to that community”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Therefore, Chevron impressively identifies the developmental issues that are relevant to the communities where they operate, and consequently, this helps to overcome the liability of foreignness. It was seen in Chapter 5 that Chevron have been long-term endorsers of the Global Sullivan Principles which focuses upon macro-level societal issues,<sup>142</sup> and arguably, endorsement of this global initiative influences them to make positive impacts. This view is confirmed by Flemming (2005: 1) who provides the example of the Angola Partnership Initiative,<sup>143</sup> which enabled Chevron ‘to broaden its understanding of what it can achieve as an agent of positive social and economic change’. Identifying relevant local content requirements (macro-level socio-economic needs) is important because, as Doctor Gbadamosi stresses:

*“in Africa people don't want ... a listed building, ... they just want a building. They just want ... a rectangular building, where there are*

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<sup>140</sup> See Section 2.3.

<sup>141</sup> Since they first began drilling for oil in Angola about fifty years ago, Chevron has grown to become one of Angola's top producers, responsible for one-third of the country's annual production. Among foreign oil firms engaging in operations in Angola, Chevron is the largest employer (Chevron, 2006: 26).

<sup>142</sup> See Section 5.10.3.

<sup>143</sup> ChevronTexaco's Angola Partnership Initiative promotes peace, better health, and improved educational opportunities in the local communities where they operate (Chevron, 2012: 1).

*enough classrooms, classes, windows, two toilets, and that's it. [Furthermore,] ChevronTexaco ... as they put the building in place, put the hospitals in place, it also empowers the local community people to be able to find places to work” (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).*

Indeed, Frynas (2005: 593-594) specially identifies Chevron as an oil MNC that has been involved in projects which could be regarded as best development practice. In conjunction with Statoil,<sup>144</sup> Chevron funded the Akassa project in Bayelsa State, Nigeria. This project has come to symbolise the potential positive benefits of oil company development work. With the aid of development NGO ProNatura in implementing the project, its distinguishing feature was that it was based entirely upon local content requirements and not driven by outsiders deciding which specific initiatives should be implemented. The project was fully community-led, with the planning process involving not just the local chiefs (as in many oil company schemes) but also local women and youths. Crucially, the project empowered the local community to help themselves by, amongst other things, providing training and advice to locals to improve their employment potential.

This highlights the fact that the issue of reducing liability of foreignness embraces the wider arena of considering the social issues in the communities where an oil MNC operates, as will now be considered in greater depth.

### **8.7: Contributing to social projects.**

Oil MNCs in Angola can contribute to improving socio-economic needs at the macro-level via three different channels. Two are required by the Angolan government and one is voluntary:

- Production Sharing Agreement (PSA): PSAs are contracts requiring firms to support social projects, and these are commonplace in Angola.
- Signature bonus: Signature bonuses are the price for a licence to operate that is paid up front. Parts of these payments are earmarked for social purposes.
- Post-tax voluntary contributions: Voluntary contributions involve spending on various social projects by firms from their after-tax profits. This is what is usually thought of as being CSR. Oil MNCs manage these on their own according to the individual firm's CSR principles.

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<sup>144</sup> Norway's state oil company.

A PSA is the most important channel for funding social projects in Angola. These social projects are treated as ordinary production costs, whose level and composition are not disclosed by contract. As PSA agreements are non-transparent, oil MNCs run the risk of punishment by the Angolan government if the activities are disclosed (as BP ran the risk of). Therefore, oil MNCs are unwilling to make public any information about how these funds are used. Initiatives for the use of these funds are primarily decided upon by Sonangol which means that any activity that may be related to improving governance is highly unlikely

Signature bonuses were made public from 2004, when Chevron was granted the Block 0 contract extension. Since parts of these payments are earmarked for social purposes, a significant amount of funds are therefore available in principle for the financing of social projects. This channel has become more transparent in recent years in terms of the size of the funds available. However, the use of the funds remains non-transparent because, just as for PSAs, Sonangol is decision maker about the use of the funds. Therefore, one can reach the same conclusion as for PSAs in terms of improving governance.

Post-tax voluntary contributions are modest in comparison with PSAs and signature bonuses. However, they are much more visible and they are enthusiastically reported on by the firms. Contributions are made annually, with Chevron contributing around US\$10 million and ExxonMobil around US\$5 million. BP, in comparison, donates only around US\$1 million, meaning that they do not contribute as much as these two US oil MNCs to social projects via post-tax voluntary contributions (Wiig and Kolstad, 2010: 183-184). BP contributes a tenth of the amount that Chevron donates, and a fifth of that donated by ExxonMobil. Therefore, is this due to the fact that BP's presence in Angola is not as large as the two US giants?

Chevron's subsidiary CABGOC has a 39.2% stake in Block 0, and a 31% stake in Block 14. ExxonMobil has a 25% stake in Block 31, 20% stakes in Block 17 and Block 24, shares a 20% stake in Block 32, and via their subsidiary Esso a 40% stake in Block 15. BP has a 50% stake in Block 18, a 27% stake in Block 15, a 26.7% stake in Block 31, and a 16.67% stake in Block 17.<sup>145</sup> These statistics suggest that BP's presence in Angola is not significantly lower than that of Chevron and ExxonMobil. However,

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<sup>145</sup> See Figure 8.1.

| <b>Shallow Water Blocks</b>   |   |
|-------------------------------|---|
| <b>Block</b>                  | <b>Stakes</b>   |
| Block 0 (Cabinda)             | ChevronTexaco's subsidiary Cabinda Gulf Oil Company (CABGOC): 39.2%, Sonangol: 41%, TotalFinaElf: 10%, Agip/Eni: 9.8%     |
| Block 1/ Safueiro             | Eni: 50%, Total: 25%, Petrogal: 10%, Naftaplin: 7.5%, Naftgas: 7.5%   |
| Block 1/ 06                   | Tullow Oil: 50%, Sonangol: 20%, ProdOil: 20%, Force Petroleum: 10%  |
| Block 2/ 80-85                | Petrobras: 27.5%, Total: 27.5%, Sonangol: 25%   |
| Block 3/ Canuku               | Sonangol: 100%  |
| Block 3/ 85-91                | TotalFinaElf: 50%, Agip/Eni: 15%, Ajoco: 12.5%, Sonangol: 6.25%, Svenska: 6.25%, Naftaplin: 5%, Naftgas: 5%               |
| Block 4                       | Sonangol: 100%  |
| <b>Deepwater Blocks</b>       |   |
| <b>Block</b>                  | <b>Stakes</b>   |
| Block 14 (Cabinda)            | ChevronTexaco's subsidiary Cabinda Gulf Oil Company (CABGOC): 31%, Agip/Eni: 20%, Sonangol: 20%, Total: 20%, Petrogal: 9% |
| Block 15                      | ExxonMobil's subsidiary Esso: 40%, BP: 27%, Agip/Eni: 20%, Statoil: 13%   |
| Block 17                      | TotalFinaElf: 40%, ExxonMobil: 20%, BP: 16.67%, Statoil: 13.33%, Norsk Hydro: 10%   |
| Block 18                      | BP: 50%, Sinopec: 50%   |
| Block 24                      | Devon Energy: 40%, ExxonMobil: 20%, Petronas and Sonangol: 40%  |
| <b>Ultra-Deepwater Blocks</b> |   |
| <b>Block</b>                  | <b>Stakes</b>   |
| Block 31                      | BP: 26.7%, ExxonMobil: 25%, Sonangol: 20%, Statoil: 13.3%, Marathon Oil: 10%, Total: 5%                                   |
| Block 32                      | TotalFinaElf: 30%, CNOOC, ExxonMobil, Marathon Oil, Sinopec, and Sonangol: 20%  |

**Figure 8.1: Stakes in Angola's Offshore Oil Fields, as of 25<sup>th</sup> May 2011, (Zhao, 2011).**

these figures do not capture the size and productive capacity of the oil fields, and indeed, Chevron boasts a major stake in Block 0, Angola's most prized oil asset. Nevertheless, BP's presence in Angola may not be a tenth of that of Chevron and a fifth of that of ExxonMobil, so why does BP donate a relatively modest amount via post-tax

voluntary contributions? Perhaps BP contributes significant amounts via the two other channels instead. One can therefore speculate that BP was motivated to publish their accounts in 2001 to make transparent the shares transferred to Sonangol under their PSAs and their signature bonus payments so that they could report that they do contribute significantly to social projects in Angola.<sup>146</sup>

However, although information is more transparent with post-tax voluntary contributions, the oil MNCs do not coordinate their activities, apart from partnership agreements on environmental issues, and they do cooperate with NGOs on projects such as enterprise development and vaccination. Chevron has the leading role in these partnership arrangements. Nevertheless, according to Wiig and Kolstad (2010: 184), ‘there are no partnerships that directly attend to governance issues. Voluntary projects focus on service provision, and governance is not addressed’.

### **8.8: The importance of environmental issues.**

It was seen in Chapter 5 that Anglo American has placed an importance historically upon macro-level socio-economic needs as it has evolved and been influenced by originally being based in South Africa. This is because, as Professor Frynas stated:

*“in developing nations ... you have very, very different priorities”*  
(Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Nevertheless, as Jonathan Samuel states, today, although placing social issues high on the agenda remains relevant to the African context, Anglo American is:

*“placing a greater emphasis on ... climate change than we were five years ago to reflect international issues”* (Samuel, J., email interview, 10<sup>th</sup> December, 2010).

Therefore, environmental issues at the macro-level are becoming increasingly important internationally. However, we saw in Chapter 5<sup>147</sup> that the major issue with the concept of sustainable development that has now been embraced by all of the firms under consideration in this thesis as part of the third generation of the evolution of the CSR agenda, including BP, is that it is an articulation that favours developed world notions of environmentalism, and it therefore, focuses upon climate change. The sustainability

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<sup>146</sup> Indeed, the harsh reaction by Sonangol was particularly prompted by the disclosure that BP had paid Angola a signature bonus of US\$111 million (McMillan, 2005: 163).

<sup>147</sup> See Section 5.11.

of local environments in developing countries is not addressed. This is arguably further reinforced by adherence to and/or the influence of the GRI from the global institutional environment and its roots in environmentalism.

The major research themes on Africa since the 1960s has been, according to Kreike (2004: 8-9), political and socio-cultural reconstruction to address the impacts of colonial conquest and other external influences, and to address the impacts of internal actors. The sustainability of local environments and addressing the related social consequences of environmental degradation, or at the very least a consideration of environmental issues, has received little or no attention despite the extensive environmental degradation that has been caused by numerous actors. Frynas (2000: 149) did consider the environmental and related social impacts of oil sector operations upon Nigerian village communities, but to illustrate oil sector impacts Nigerian court judgements were utilised. The major weakness of using this approach was that the courts relied too heavily upon the interpretations that were presented by legal counsels and witnesses in court, and as a result it largely failed to identify the processes leading to environmental degradation. Doctor Gbadamosi comments upon the fact that local environmental issues in Africa have become significantly important recently. As he states:

*“I have seen it firsthand and I know that it is ... a real issue. ... In Nigeria, ... if you ask the average citizen [about environmental issues] in the oil prospecting areas they will tell you eighteen, twenty years ago, thirty years ago, they’ll probably tell you, ‘what does that mean?’ They probably wouldn’t have a clue what you were talking about. But today, in the last ten years, it is the only issue that is important to people who live in these communities”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Confirming that local environmental issues are increasingly becoming relevant, together with social issues, Professor Frynas states that:

*“Social investment ... [is] ... key ... because it’s very tricky, it’s difficult to get it right and [it is] important to get the social licence to operate in developing countries which cannot be done without some sort of social investment. But then it doesn’t mean that everything else isn’t important”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Doctor Gbadamosi proceeds to provide an enlightening account, concerning oil spillage:

*“What has happened with the Gulf of Mexico ... has been going on in Nigeria for about twenty five years”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

BP states that:

“oil spill avoidance is critical to our industry and society because of the potentially serious impacts on health, safety and the environment. Oil released into the environment can contaminate land, air and water. It is a highly flammable material that, if ignited, can cause severe injuries and damage to property. The three fundamental approaches taken by BP to address oil spills are:

- recording and targeting the reduction in the number of oil spills,
- inspection of vessels and pipelines used for storage and transportation of oil,
- ensuring our preparedness for oil spill response, including clean-up and restoration.

If our systems fail and we spill oil, we take all feasible steps to ensure that as much of the oil as possible is recovered and not left in the environment. About half of our total spills are contained, so never reach land or water” (BP, 2000: 18).

BP reported that in November 2000 there was:

“a major leak of million litres of light condensate oil from a tank at [their] operations in Sharjah, UAE ... [resulting] in the release of 3.3 million litres of oil to the desert environment. The spill, caused by undetected corrosion in a large storage tank, had relatively little impact on the surrounding environment” (BP, 2000: 18).

Although it is commendable that BP were open and honest about this leak, it is difficult to believe that such a spill ‘had relatively little impact on the surrounding environment’. Nevertheless, the Gulf of Mexico issue that Doctor Gbadamosi refers to is explained in Box 8.1 on the next page, and as BP state:

“BP has substantial deepwater assets around the world, including the Gulf of Mexico [and] Angola” (BP, 2009c: 10).

Therefore, the Gulf of Mexico incident should cause concern for Angolans assuming that BP is using similar technologies. Nevertheless, BP states that:

“we are committed to working with the industry and governments to share lessons learned [from the Gulf of Mexico incident], as well as the new equipment and technology developed in response to this accident. In the Gulf of Mexico, BP has joined the Marine Well Containment Company (MWCC), an initiative with ExxonMobil, Shell, ConocoPhillips and Chevron designed to quickly deploy effective equipment in the event of another underwater blowout. The well

A gas release and subsequent explosion occurred on the Deepwater Horizon oil rig in BP's Macondo exploration well in the Gulf of Mexico on the 20<sup>th</sup> April, 2010. A fire burned for 36 hours before the rig sank, and hydrocarbons leaked for 87 days before the well was closed and sealed. The accident was caused by a loss of control over the pressure in the well following a failure in the well's blowout preventer. Following the initial explosions, the blowout preventer's emergency functions failed to seal the well which allowed the leak to occur. Eleven people died and many others were injured.

BP acted to take responsibility for the clean-up and to compensate people affected, spending US\$17.7billion on their response activities by the 31<sup>st</sup> December, 2010. In addition, in agreement with the US government, BP set up a US\$20billion fund, the Deepwater Horizon Oil Spill Trust, to provide confidence that damage claims funds would be available. Throughout their response, BP worked closely with the US government, local residents, shareholders, employees, the wider industry, and the media. BP launched an investigation which concluded that there was no single cause for the accident. Rather, it was caused by an interlinked series of mechanical, human judgement, engineering design, operational implementation, and team interface failures. The investigation concluded that the responsibility of these failures rested with several companies, including BP. An external investigation conducted by the US National Commission, requested by President Barack Obama, identified failures of management and decision making within BP and its contractors, together with regulatory failures.

**Box 8.1: The Deepwater Horizon Oil Spill (BP, 2010b: 7, 9).**

containment equipment used in the Deepwater Horizon response will preserve existing capability for use in the Gulf of Mexico while the MWCC builds a system that exceeds current response capabilities" (BP, 2010b: 13).

One can only hope that such cooperation can be achieved to respond to a similar oil spill in Angola's offshore oil fields, or that the new equipment and technology that has been developed will actually prevent such an accident occurring in the first place.

However, as BP acknowledges:

“We recognise that the Deepwater Horizon accident has raised questions about finding and producing oil and gas in deepwater environments. We are working with governments, regulators and our industry so that the lessons learned from the accident are not forgotten and become part of industry best practice. We believe any future industry-wide governing principles or framework for deepwater drilling should include shared capacity for response to incidents, should they occur; consistent policies and equipment, wherever possible; and active engagement with regulators and other relevant government officials. In addition to any new governmental oversight mechanisms and processes that may be introduced, we believe our industry should focus on contingency planning and response capability; overall reliability of well design and construction; operational capability and competence; and financial capability. Deepwater resources are an important part of the energy mix, especially in the US, where offshore production in the Gulf of Mexico has reversed a 23-year trend of declining domestic oil production. Globally, deepwater resources account for around 7% of global oil production, a figure that we expect to rise to nearly 10% by 2020” (BP, 2010b: 23).

Nevertheless, Doctor Gbadamosi comments upon oil spills by stating that:

*“This is an everyday activity problem in Nigeria [and] it's not in the news .... [unlike] the Gulf of Mexico incident, and I have seen it firsthand. ... The people who live in that part of the country [the Niger Delta], unlike Angola, where everything is ... mainly off-shore, ... in Nigeria it is fifty-fifty, both on-shore and off-shore, and much of the coast has villages ... inhabited by people who live on fishing. ... So what has happened is that all of a sudden somebody comes in there with a ship and they're drilling oil there, and within a couple of days ... they have oil spilling everywhere. So the entire community have to evacuate ... [as] they can't do any fishing. ... When they talk about all the crime and all the fighting in that part of the world, [the Niger Delta], it becomes very easy to recruit people who are already very angry, the same way Al Qaeda is able to recruit and reach people for different reasons around the world”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

This is because, as Doctor Gbadamosi explains, civil conflict can result from the fact that:

*“oil companies have not bothered to do anything about the clearing up ... [and] I am not seeing any legislation ... from government”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Therefore, this account highlights one of the main processes that have led to environmental degradation, namely oil spillage. Furthermore, this account identifies that local fishing communities are unable to sustain their livelihoods. Such a view is confirmed by Aluko (2004: 64-65), who stated that oil sector operations have ‘brought incessant oil spills and pollution which [has] disrupted some of the traditional occupations of the people in the Niger Delta, the main ones being farming and fishing. A direct fallout from this is that most people whose main occupations are farming and fishing have thus been deprived of their means of livelihood’. This is because, as Uyigue and Agho (2007: 9) also confirm, the ‘activities of multinational oil companies [have] devastating effects on ... farmlands, crops, creeks, lakes, economic crops and rivers [and] are so severe that the [African] people can no longer engage in productive farming, fishing and hunting’.

Tuodolo (2009: 537) further acknowledges this problem, and outlines the processes and consequences involved. As Tuodolo states, there are ‘oil spills from well-heads, flow stations and pipelines; discharge of drilling and production waste; and gas flared<sup>148</sup> from the different oil fields - all occurring on/in the land, sea, creeks and air; [and] farm lands and fish ponds are destroyed in the process; forest and sea animals and plants are destroyed or forced to migrate; and the air is polluted. The impacts of such environmental degradation result in low farm produce, loss of livelihood (fishing and farming), diseases, limitation of economic activities, food shortage, polluted waters, etc. In a few instances, oil [spills have] led to the death of unsuspecting fishermen. The negative impact ... on the people’s health and livelihood is enormous’.

Hodges (2004: 102, 151) also highlights that this scenario could be occurring in Angola. The sea off the southern coast, around Benguela and Namibe, has one of the best fishing resources on the continent, despite over-fishing reducing stocks. However, offshore oil production is threatening to pollute these rich fishing resources, affecting the ability of the local communities to sustain their livelihoods. As Doctor Gbadamosi comments:

*“If it’s a bad issue in Angola now, it will be an issue when they begin to have [oil] spillage. ... I wouldn’t want that to happen in Angola because that would kill the fish, and it’s going to render other people*

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<sup>148</sup> See below.

*unemployed, and that creates more social problems” (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).*

Chevron does acknowledge that:

*“Fishing in the Cabinda Bay area [of Angola] is an important means of income for local communities and a commercial resource for the region” (Chevron, 2006: 27).*

Nevertheless, commenting upon whether all Western oil firms are responsible for extensive oil spillage, including BP, Doctor Gbadamosi states that it is:

*“all of them. It’s ... really terrible. But the people of the area [the Niger Delta] claim ... that Shell is the worst culprit” (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).*

Indeed, Evuleocha (2005: 338) states that calls from the Nigerian government for maintaining safe environmental practices have to be aimed at all of the major oil firms. Nevertheless, this refutes BP’s claim that not much oil is left in the environment. Although Doctor Gbadamosi’s statement that the people of the Niger Delta claim that ‘Shell is the worst culprit’ is probably due to the fact that, as Tuodolo (2009: 539) states, ‘Shell’s role in the environmental and social damage of Ogoniland cannot be easily wished away’,<sup>149</sup> Shell does provide a forceful statement on the cause of oil spillages. Shell claims that:

*“in recent years most spills from [our] facilities have been caused by sabotage and theft. But some are operational spills due to equipment failure or human error” (Royal Dutch Shell, 2010: 18).*

However, as Doctor Gbadamosi comments:

*“As far as I know [from] the evidence on the ground ... it is almost entirely operational spills. Human errors [and/or] equipment failure for environmental degradation can only happen for so long. We are talking about spillage that happened for well over a decade. Responsible firms will not close their eyes and let it continue for even a full month (in today’s world) and that is really the point for me. As far as theft and sabotage [is concerned] it will certainly not apply to the timeframe we are talking about. Theft and sabotage are a lot more recent relative to the time of the spillage occurrence in Nigeria. I think the real issue is that the government of Nigeria may have significantly indulged Shell (and other Multinational Oil Firms) with little or no control (which is their oversight function) hence these companies acted as they pleased at that time. All these have changed and Shell can now rationalise it and*

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<sup>149</sup> See Box 4.2 in Chapter 4.

*attribute it to others. I think it is a failure of CSR on their part and this is why they have more or less acknowledged their failure in this respect and are willing to pay the heavy financial atonement for it*<sup>150</sup> (Gbadamosi, G., email interview, 4<sup>th</sup> October, 2011).

Indeed, to confirm this, Badejo and Nwilo (2004: 5) stated that a Nigerian government committee that investigated Shell found that it was responsible for the majority of the oil spills and environmental incidents in the Niger Delta, including an epidemic in 1993-1994 in which 1,400 people were killed. Furthermore, the committee blamed the prevalence of cancer in the Niger Delta on the exposure to the company's oil spills. Nevertheless, when it comes to actually cleaning up the pollution caused by the oil spills, as Doctor Gbadamosi highlights:

*“the UN says it cannot be cleaned up in 30 years!”* (Gbadamosi, G., email interview, 4<sup>th</sup> October, 2011).

Another process that significantly affects local environments is flaring gas. As Doctor Gbadamosi states:

*“Gas flaring ... goes on forever, and we'll find it all over the rivers and the land of southern Africa [and] you will find it there ... twenty four hours [a day] ... which is a lot of pollution”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Eregha and Irughe (2009: 165-166) confirm that this problem of flaring gas does exist, and in fact, it 'has been practiced in the Niger Delta for over four decades'. As they further highlight, 'it is not an exaggeration that gas flaring is environmentally unethical and has contributed significantly to the degradation of the environment in the region. This practice may have altered the vegetation of the area, replacing natural vegetation with stubborn grasses and the presence of these grasses indicates that the soil is no longer fertile for [the] cultivation of crops'. Hodges (2004: 151-152) also confirms that this problem exists, and that it is associated with virtually all the onshore oilfield discoveries in Cabinda and the Lower Congo basin in Angola. Despite the fact that, for example, limited amounts of liquefied petroleum gas are exported, virtually all the associated gas is flared.

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<sup>150</sup> For example, the Shell Petroleum Development Company of Nigeria Ltd (SPDC) completed construction of a US\$1.1 billion replacement oil pipeline in 2010. SPDC are also determined to be more transparent in their response to oil spills in the future (Royal Dutch Shell, 2010: 18).

Therefore, there are significant local environmental issues facing oil MNCs in Africa that are important to the local communities where they are engaged in operations. This suggests that in order to continue to receive a social licence to operate, oil MNCs should address the related social consequences of environmental degradation. However, oil MNC's endorsement of the concept of sustainable development and its focus upon the climate change agenda means that developing world local environmental issues are being ignored, as this above evidence suggests.

### **8.8.1: Answering an audience in developed countries.**

As Professor Frynas comments:

*“Developed countries ... put a lot of emphasis on climate change and carbon emissions. I think that the leaders [of BP] should ... still consider ... other things because they've managed to reduce their own operational emissions, to a much larger extent than any other oil company. But ... that was partly to answer to an audience in developed countries”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

BP has recognised that:

“the priorities for meeting economic, social and environmental needs in emerging markets in a sustainable way will be as important as, but different from, those in developed economies” (BP, 2000: 7).

Nevertheless, BP continually stress in their reporting a focus upon the climate change agenda to answer an audience in the developed world, certainly influenced by their adherence to the concept of sustainable development and its developed world notion of environmentalism,<sup>151</sup> as they have now been influenced to endorse this concept by initiatives from the global institutional environment For example:

“Energy [is] a major topic of debate among policy-makers and the public, with particular concerns over ... climate change” (BP, 2006c: 4),

suggesting that indeed, BP is more concerned with answering an audience in the developed world. Furthermore, BP stated in their 2006 Sustainability Report that:

“public awareness and concern over climate change intensified during 2006. New research was published that highlighted the increasing future risks of the impacts of climate change and the growing acceptance that much of the observed warming and associated impacts result from human activity. There was also significant legislative activity, especially in Europe and the US” (BP, 2006c: 5),

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<sup>151</sup> See Section 5.11.

which suggests that it is not only the developed world audience that they are concerned about, that is, the public in the developed world; but also developed world legislation. BP also state that:

“we have a continuing commitment to improve operational energy efficiency and to seek out [greenhouse gas] emission reductions” (BP, 2007b: 13),

confirming the view of Professor Frynas that BP is reducing their own operational emissions to a much larger extent than other oil companies. In 1998, the company stated that:

“if climate change is the long-term challenge for [the oil] industry, air quality in our cities is a more immediate concern” (BP Amoco, 1998: 6).

Climate change is indeed a long-term challenge. However, this statement suggests that the company does consider day-to-day environmental challenges. Nevertheless, ‘air quality in cities’ is perhaps another example of the way BP only answers to an audience in the developed world.

A mainstream firm such as BP and their ethical ‘Beyond Petroleum’ rebranding campaign attempted to satisfy an audience of customers in developed countries who may be concerned about ethical factors. However, the key factors for a firm that moves towards the mainstream ethical concerns market is not necessarily the lure of increased sales by satisfying customers’ ethical concerns, but more protecting the brand from attack, or in other words, the firms’ reputation, and risk. (Crane, 2008: 216, 222). Therefore, BP’s environmental principles tackle the climate change agenda to answer an audience in developed countries.

One way that BP perhaps achieves this in the field of education at the institutional environment level. BP emphasises the importance of education to their overall CSR strategy. Support for education has been the highlight of BP’s community programme for many years. In the UK BP works with education authorities, the local Education Business Partnership, and schools to form the basis of what BP considers to be highly successful ongoing activities that are delivered by BP staff working with schools and BP’s Educational Coordinator (Farnsworth, 2004: 168). In the UK in November 2006, the BP Educational Service launched the Carbon Footprint Toolkit, which is an educational resource designed to help secondary school students understand more about climate change and their own carbon footprints. Developed in conjunction

with teachers and BP experts, the toolkit enables students to examine the carbon footprint of their school, and create realistic carbon reduction plans accordingly (BP, 2009a: 1). In addition, the BP Educational Service supplies schools and colleges throughout the UK with material about their business activities. However, by allowing a corporation to promote their brand in such a way presents a clear danger, as recognised in criticism by both the Consumers Society and a committee of MPs. In their view, a corporation producing such materials, and in the way BP allows it to be presented, amounts to little more than just company propaganda (Farnsworth, 2004: 168). Nevertheless, a toolkit examining the carbon footprint of schools could be interpreted as a deliberate attempt to focus attention towards the climate change agenda and away from everyday pollution from oil sector operations in the developing world, such as oil spillage and flaring gas, and that is what is appropriate to the African setting and this is not being addressed.

### **8.9: Strategic CSR.**

The implications of engaging in strategic CSR depends upon the motivations MNCs have for implementing CSR principles. MNCs may be motivated by internal guidelines that are set at the corporate board level, and external guidelines such as complying with global initiatives. CSR can also be driven by stakeholder pressure. CSR behaviour could also be motivated by the opportunity that implementing CSR principles presents in terms of securing licences to operate, or in other words, strategic CSR (Wiig and Kolstad, 2010: 182). The previous section noted that social issues, and now today environmental issues, should be embraced by an oil MNC to receive a social licence to operate. However, to what extent do firms devise CSR policies merely to secure a licence to operate from a host governments' institutional environment?

Researching the co-evolutionary interaction between the Angolan government and oil MNCs engaged in operations in the country, Wiig and Kolstad (2010: 179) found firstly, that oil MNC's CSR principles are largely unimportant for securing a formal licence to operate in comparison with other factors such as technological prowess and financial strength. Nevertheless, regarding the extent to which CSR matters in securing a licence to operate, human rights and charitable activities are relatively unimportant, whereas other dimensions of CSR principles are far more important, and these include local content requirements and employing local staff together with some

environmental considerations. Secondly, to the extent that CSR matters, it seems to be used strategically by oil MNCs. Therefore, influencing Angolan officials to increase the likelihood of securing a licence to operate is a major motivation for transferring CSR principles. Thirdly, oil MNCs do not address the poor institutional environment, and in turn they do not promote economic development in Angola by transferring their CSR principles. Commenting upon whether oil multinationals use CSR strategically, Professor Frynas states that:

*“In terms of actually getting some specific [formal] licences ... there’s certainly been some of it. ... ChevronTexaco in Angola is one example and [there are] a few other places that it is certainly the case that it’s been used strategically. ... Usually it’s been [about] spending on social investment in general or on a specific government-favoured social fund. So certainly companies are trying to get an advantage in some way and some companies are certainly keenly aware that this sort of activity offers a [competitive] advantage”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Indeed, oil firms that engage in operations in Angola are encouraged to contribute, for example, to the Social Bonus Fund of Sonangol (Frynas, 2009: 116), and to the Eduardo dos Santos Foundation (Fundação Eduardo dos Santos, FESA) initiated by the president. FESA has been said to be contributing to dos Santos’s personality cult, and is characterised as being within the ‘system of clientelist domination’ (Messiant, 2001: 288, 296). What Messiant is referring to by ‘clientelist domination’ is the fact that Angolans do not enjoy real political and social rights as one might understand them in the democratic West. Instead, Angolans only have the ability to be part of patrimonial networks, and being part of these networks enables accessibility to certain resources and enables an avoidance of certain penalties (Messiant, 2007: 120). Therefore, contributing to social funds is a way of being part of a patrimonial network. Indeed, Chevron has strategically implemented their CSR principles in this way to renew their stake in Angola’s most prized oil asset, Block 0. An announcement in November 2002 of a partnership between Chevron, USAID, and UNDP worth US\$50 million coincided with the negotiations over Block 0. Chevron’s concession was subsequently extended, in early 2004, from 2010 to 2030 whilst Chevron contributed another US\$80 million to a social fund. Therefore, Chevron transferred their CSR principles strategically to gain a competitive advantage (Frynas, 2009: 117) as Professor Frynas states above, possibly

by making sure that they are part of a patrimonial network to ensure accessibility to Angola's oil resources.

The problem of patronage is the key factor behind the resource curse. This involves the fact that government officials do not use resource revenues for economically beneficial investment that would promote development. Instead, resource revenues are utilised by those government officials to strengthen their hold on power. By engaging in strategic CSR to secure formal licences to operate, it is possible that oil MNCs facilitate patronage problems which exacerbate the resource curse (Wiig and Kolstad, 2010: 179). Nevertheless, commenting upon whether firms use CSR strategically, the CORE Coalition anonymous source confirms the view of Professor Frynas by stating that:

*"I think that CSR initiatives can be very important in companies securing a social license to operate, yes. ... BP has tried very hard to put in place systems or schools or projects which will win over the support of the local community, which clearly is in BP's best interests ... so yes of course some of the CSR initiatives are strategic"* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

Therefore, CSR is used strategically not just to receive a formal licence to operate, but also a social licence to operate as it is in an MNC's best interests to gain the support of the local community. However, as the CORE Coalition anonymous source further states, some CSR initiatives:

*"are very un-strategic, like for example building two schools in a very small village, which has already got a school"* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

This refers back to the problem of the liability of foreignness, and it is very important to get local content requirements (socio-economic needs) correct. Nevertheless, once an MNC is able to understand what is required in the local context, they have to deliver on their promises. Professor Child commented upon multinationals using CSR strategically by stating that:

*"Using it strategically doesn't necessarily mean that they're not going to follow that up with action. It's not just what they can get away with in a local situation. It's also going to put them in the face of public opinion and even shareholders in their own countries"* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

Therefore, although one could criticise firms for engaging in strategic CSR, it is possible to conclude that so long as firms ‘follow that up with action’, as Professor Child states, strategic CSR is not really detrimental to the host communities. However, the CORE Coalition anonymous source provides a note of caution, which refers to the liability of foreignness. This issue of strategic CSR will be revisited in Section 9.13.

### **8.10: Discussion: institutional co-evolution.**

BP believes that business has always been an important agent of change and that large companies can be part of the solution to address governance shortcomings. Therefore, BP obviously feels that they engage in institutional co-evolution.<sup>152</sup> However, Wiig and Kolstad (2010) state that influencing the Angolan government to improve the institutional environment does not appear to be an important part of any oil companies’ CSR activities. Another issue is whether businesses learn from experience over time, and as we saw in Chapter 5, BP has been embracing social issues throughout their history, and they even suggest in their 2007 Sustainability Report that they have learnt from their experience of embracing social and environmental issues. However, the CORE Coalition anonymous source states that BP does not deal with social and environmental issues effectively because it clearly has not learnt from its experience. This discussion therefore, will review the evidence to discover whether this viewpoint is correct.<sup>153</sup>

BP’s CEO Browne highlighted that their employees want job satisfaction in the context of them being able to contribute to the progress of society, and that this is one of their most important drivers for CSR. However, the CORE Coalition anonymous source states that CSR is entirely about protecting the brand. Hamann and Bezuidenhout (2007) confirm this view by stating that reputation assurance is indeed an important driver of CSR. In addition, BP disappoints the expectations of stakeholders in a variety of ways.

BP’s approach for promoting revenue transparency and management is to support the issue of revenue transparency, and to ‘promote understanding of issues linked with resource-rich economies and sharing of best practice in addressing their challenges’. The questions that arise here is does BP share best practice effectively, and does it provide a model that can be adopted elsewhere? The example of BP attempting

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<sup>152</sup> Aim 4 in Section 1.1.

<sup>153</sup> Aim 1 in Section 1.1.

to promote transparency in Angola highlights, as the CORE Coalition anonymous source comments, that companies do make such difficult decisions, only to find that they are 'put in a position where countries make it impossible for them to be transparent', and the fact that none of the other major oil MNCs followed the example of BP means that best practice was not effectively shared, and surely therefore, it did not provide a model for adoption elsewhere. Indeed, it did not provide the best practice to be followed by other companies (or themselves), which is disappointing because such an initiative could only work with collective action. Nevertheless, BP's experience in Angola can be seen as major step forward because it led to the launching of the EITI, which BP continues to support, suggesting that the company does believe in this initiative as best practice that can be adopted worldwide. Indeed, BP highlights the example of Azerbaijan in their reporting to support this claim. However, the EITI does not 'go anywhere near enough', because it focuses upon the transparency of government revenues rather than government spending.

Furthermore, oil MNCs in Angola can contribute to addressing social issues via PSAs, signature bonuses, and post-tax voluntary contributions. However, PSA agreements are non-transparent; and although signature bonuses were made public from 2004, the use of the funds remain non-transparent because Sonangol is the decision-maker about their use, just as they are for PSAs. In comparison, post-tax voluntary contributions are much more visible, although they are much smaller than PSAs and signature bonuses.

If BP has learnt from its experience, then they would be able to reduce their liability of foreignness. However, when BP wanted to educate their managers about issues connected with development and sustainability, they habitually turned to a business school instead of a development institution. In addition, their asset managers are rotated so they cannot gain long-term experience of local content requirements in a specific host country. Therefore, BP managers are not in a position to reduce their liability of foreignness.

Environmental issues are becoming increasingly important, not just internationally with the climate change agenda, but in the African setting. Doctor Gbadamosi provides an enlightening account of why environmental issues in Africa have become significantly important recently. Oil spillage and flaring gas hampers the

ability of local communities to sustain their livelihoods. Therefore, oil MNCs should address the related social consequences of environmental degradation, as it is these local environmental issues that are applicable to the African setting, not the climate change agenda that BP focuses upon. Chapter 5 showed that BP does have a history of embracing social issues, but addressing the social consequences of environmental degradation is perhaps a lesson that has not been learnt from the company's history. This is important in order to continue to receive a social licence to operate. Especially concerning oil spillage, the Gulf of Mexico incident should cause concern for Angolans assuming that BP is using similar technologies for deepwater drilling and exploration. BP states that it is learning the lessons from the accident so that they become best practice. Nevertheless, oil spills are an everyday problem in Africa, using Nigeria as the example, and all Western oil firms are responsible, including BP. This is despite BP's claim that they limit the impact of oil spillage on local environments. Nevertheless, Shell is considered to be the worst offender. Shell claims that most oil spillage is caused by sabotage and theft. However, evidence on the ground reveals that it is almost entirely due to operational spills.

To the extent that CSR matters, it is used strategically by oil MNCs to secure a formal licence to operate.<sup>154</sup> Indeed, Chevron strategically implemented their CSR principles to gain a competitive advantage and renew their stake in Angola's most prized oil asset, Block 0. It is possible that they achieved this by making sure that they are part of a patrimonial network to ensure accessibility to Angola's oil resources. Wiig and Kolstad (2010: 183) state that if the requirements of Angolan authorities are reported as a motivation for engaging in CSR, then this has severe implications in terms of the types of CSR activity MNCs would engage in. This is because instead of MNCs acting as a change agent by attempting to influence the Angolan institutional environment, MNCs would be adapting their CSR policies so that they are in tune with the requirements of the Angolan government. Therefore, they would be engaging in institutional adaptation. This suggests that MNCs would not engage in any activities that would improve the Angolan institutional environment. By engaging in strategic CSR to secure formal licences to operate, oil MNCs facilitate patronage problems which exacerbate the resource curse. Furthermore, CSR is also used strategically to receive a

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<sup>154</sup> Aim 7 in Section 1.1.

social licence to operate because it is in the best interests of oil MNCs to gain the support of the local community. As the anonymous source from within the CORE Coalition states, BP has tried very hard to implement projects to win support from the local communities. However, Professor Child commented that using CSR strategically in this way is not necessarily a bad thing because it does not mean that oil firms are not going to implement their CSR principles, and therefore, society can benefit as a result. Nevertheless, no evidence appears to be available to suggest that using CSR strategically embraces addressing the social consequences of environmental degradation.

To conclude, although BP does implement projects to win local support, their CSR is entirely about protecting the brand, suggesting that engaging in institutional co-evolution to improve the institutional environment does not appear to be an important part of their CSR principles, as Wiig and Kolstad (2010) stated. Nevertheless, the example of BP attempting to promote transparency in Angola *is* a genuine attempt to improve the institutional environment. However, it did not provide a model of best practice, although it did lead to the launching of the EITI. The fact that BP continues to support the EITI suggests that they believe that this is a model of best practice, although this initiative is insufficient, and therefore, BP appears to have not learnt from this Angolan experience. BP is not in a position to learn from its experience when it comes to reducing their liability of foreignness, and it has not learnt from its experience that addressing the social consequences of environmental degradation is important to continue receiving a social licence to operate. Therefore, the viewpoint of the CORE Coalition anonymous source that BP has not learnt from its experience appears to be valid. If BP is indeed not learning from their experience, perhaps it is because they attempt to measure the impacts of their operations with SAM, and relying too heavily upon SAM means that BP is unable to identify things that cannot be measured in a financial sense, unlike Anglo American who measure their business principles with a wide range of metrics.

## **Chapter 9: The influence of China and comparison with Western firms.**

*“Some people say [that the Chinese] are in their honeymoon period now when ... we just want someone else for the competition ... not just the West”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

*“[China is] not a resource-rich country so therefore she’s competing with the West to make a bad job of Africa”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

“We will keep supporting local public welfare undertakings and contributing to the sustainable development of local economy and society” (Sinopec, 2011a: 75).

### **9.1: Introduction.**

Doctor Hale states that:

*“what China is trying to do is to catch up with the West [and] they want to get back to the situation where ... they were the centre of the economic universe”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

Alden (2007: 8, 14) echoes this view by highlighting that this re-emergence of China means that the country’s energy security needs have increased dramatically in recent times, and nothing symbolises Africa’s increasing importance in China’s energy security needs than the fact that in 2006, Angola overtook Saudi Arabia as China’s largest supplier of oil. Angola now supplies 18% of China’s total oil imports, making her China’s top trading partner on the continent. Since natural resource extraction by any global corporation largely involves activity in developing countries, the impact of Chinese firms engaging in outward FDI in developing countries is of particular concern to Western observers because Chinese firms have a relatively short history of conducting sound corporate governance, if indeed, in some Western eyes, they conduct sound corporate governance at all.<sup>155</sup> However, perceived weak corporate governance practices in China are at odds with the fact that Chinese businessmen are setting their sights high. They seek to establish global giants for the next generation. The Chinese

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<sup>155</sup> For example, Malkiel *et al* (2005: 8) say that in China’s short market history, many an investors’ wealth has been lost by false accounting due to poor corporate governance, and Kato and Long (2006: 31) believe that a broad program of reform, including more comprehensive investor protection, is required to improve China’s poor corporate governance.

emerging market companies therefore want to learn more about international norms and standards. While they may not have the experience or in-house resources to adopt them, they have enormous appetite for absorbing the lessons of success in international markets. A growing number of Chinese firms have demonstrated a willingness and desire to improve corporate governance. (International Finance Corporation, 2005: 4). Nevertheless, the element of corporate governance that is CSR is problematic because it is generally a Western concept. As the CORE Coalition anonymous source states:

*“in terms of CSR I think that Western companies do have some advantages ... because CSR is ... a kind of Western brand and the kinds of things that CSR promotes and is interested in comes from a Western culture”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

This raises the question as to whether it represents a set of principles that the new entrants in the institutional regime, China, should also adopt. However, the Chinese face the same ethical dilemmas as a Western firm when they invest abroad. Professor Frynas takes issue with the CORE Coalition anonymous source, commenting that:

*“international firms always pay a lot more lip service to CSR and try to do something about it because they’re forced to. When you become international you are much more in the public eye, you’re much more open to criticism, ... so I’m sure Chinese managers are grappling with the same question as British or American ... managers, ... how to deal with those social and environmental challenges”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Indeed, we saw in Chapter 6 that both CNOOC and Sinopec have embraced global initiatives that consider CSR, such as the GRI, the Global Compact, as well as the concept of sustainable development,<sup>156</sup> and CNOOC does provide an example of ‘grappling with the same question’. CNOOC’s overseas CSR concepts involve supporting:

*“the wish of the host countries for development of education and medical causes, and improvement of infrastructure. The Company participates in activities related to education and culture, poverty alleviation, disaster relief, infrastructure construction and health care”* (CNOOC, 2009b: 9).

Consequently, this chapter will consider the new entrants in the institutional regime, China, by analysing the Western perceptions on Chinese involvement in Africa, whether China could be a development partner for Africa, and whether Chinese

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<sup>156</sup> See Section 6.10

investment would be preferred by African governments. We shall then move on to assess the implications of the fact that Chinese investment comes with ‘no conditions attached’, the role of the Chinese state, the implications of the complimentary investment by the Chinese state together with their building of infrastructure, the implications of the Chinese bringing their own labour, whether Western fears of the Chinese firms free riding on social and environmental issues is justified, their liability of foreignness, before considering the Western response to Chinese involvement. Prior to considering these issues, we will begin with a discussion of the Chinese in Africa generally, before examining the evidence in the context of having a particular focus upon Angola.

## **9.2: The development of Sino-African relations.**

In the 1990s Segal (1992: 126) predicted that China, as a rising global power, would be more important to Africa than vice versa. He even prophesied that Africa would be the region of least importance to China’s foreign policy. However, one only has to look at current Sino-African relations to cast doubt on the validity of Segal’s prediction.

Egypt became the first African nation to establish diplomatic relations with the People’s Republic of China in 1956, and since then Sino-African relations have gone through a fundamental shift. Prior to 1978, ideology heavily influenced China’s Africa policy as the country positioned itself on the front line in the struggle against colonialism and imperialism (Anshan, 2007: 69-70). Nevertheless, Cornelissen and Taylor (2000: 616) describe China’s aims in Africa at the time as promoting Maoism. China provided free aid as the basis to build bilateral relations by 1963-64, and during this time, China also supported African independence movements. In this period, China began building a number of landmark structures, such as stadiums, hospitals, and conference centres, in many African countries.

These projects were intended to be symbols of independence and they embodied the spirit of decolonisation. At this time the primary objective toward Africa was exporting revolution, which deviated from China’s much vaunted principle of non-interference in the internal affairs of other countries, although this objective was abandoned by the end of the 1960s when China started to provide more free and unconditional aid to Africa. All of this laid the foundations for contemporary Sino-

African relations, and by 1978, diplomatic relations had been established with 43 African countries

In 1982, the 12th National Assembly of the Communist Party of China officially formulated the shift in foreign policy from one that emphasised war and revolution to one that emphasised peace and development. The focus shifted to a spirit of developing together. The 12th National Assembly also formally established the principles of interstate political relationships based on independence, complete equality, mutual respect, and non-interference in the internal affairs of other countries. Relations based on these principles convinced many Africans of China's sincerity in respecting African political choices and helping to promote development. Since then, China has attuned its economic assistance to Africa by attempting to help Africa help itself. Economic assistance began to include preferential and discounted loans; and the principles of equal treatment, a respect for sovereignty, non-interference, mutual benefit, and co-development have endured.

China shares the principle of non-interference with the African Union. This has had implications when one considers Zimbabwe. In 2005, when Robert Mugabe demolished numerous urban dwellings in Harare to crack down on illegal shantytowns, the UK and the USA called for action from the African Union. However, the African Union took the position that it was not appropriate to start interfering in the internal affairs of member-states and gave Mugabe its blessing to resist sanctions imposed by the West. Nevertheless, China's principle of non-interference reflects China's respect for the economic and political choices that African countries make. This position does not always give an advantage to China. For example, despite China's aid commitments and support for Sudan; in 2003 when a Canadian oil firm decided to sell its interests in Sudan, an offer made by China was rejected in favour of an Indian firm, a decision that was respected and accepted by the Chinese without interfering (Anshan, 2007: 71-77).

### **9.3: Summit diplomacy.**

What can be described as summit diplomacy (major meetings between Chinese and African heads of state) is utilised to reveal China's core policy principles regarding Africa. Such meetings have been a key way to establish direct communication at the highest levels of government since the 1960s, and they set the tone of relations and bilateral policies (Anshan, 2007: 80). China certainly does have an advantage by

engaging in diplomacy since, as Jakobson and Zha (2006: 62) stress, the lack of a global policy for the oil trade provides ‘ample space for both exporting and importing countries to manoeuvre by mixing economics with politics’. The result has been the creation of mutual trust between the respective heads of state. Importantly however, summit diplomacy has attempted to instil confidence amongst African leaders regarding the transfer of China’s foreign policy principles. China’s foreign minister made visits to African nations in every year from 1991 to 2007, and since the turn of the century, two-way visits have increased dramatically. In addition, the Forum on China-Africa Cooperation (FOCAC)<sup>157</sup> has been established, which has ambitious plans for Sino-African cooperation and provides a mechanism for routine meetings between heads of state (Anshan, 2007: 80).

### **9.3.1: The Forum on China-Africa Cooperation (FOCAC).**

In 2006, the Chinese government released a white paper regarding its relations with Africa called China’s African Policy. This elaborated a detailed plan for future relations with Africa including political cooperation (on international affairs and between political parties and political organisations), economic cooperation (resource exploration and financial dealings), and cooperation in the fields of education, science, culture, health and social work, together with peace and security. Whilst this white paper is a blueprint for future relations, the FOCAC is the vehicle to explore and implement effective methods to realise the goals of China’s African Policy (Wenping, 2007: 36).

Since its initiation at the Ministerial Conference in Beijing in 2000, the FOCAC has become the lynchpin of Sino-African relations. The Forum, held every three years since 2000, aims to foster ‘solidarity and cooperation based on equality, consultation, consensus, friendship, partnership and mutual benefit’. The Beijing Declaration emerged from this first Forum which contained three major goals. Firstly, China and Africa has the desire to promote mutual economic development by eliminating poverty.<sup>158</sup> Secondly, China and Africa seek to nurture their international

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<sup>157</sup> See Box 9.1.

<sup>158</sup> Indeed, according to Lucien (2011: 368), ‘China’s traditional investment packages have been modified to include important social and community outreach dimensions such as the initially US\$9 billion, eventually revised to US\$6 billion, resource against infrastructure agreement concluded with the DRC. In this agreement, 31 hospitals and two universities are to be built’.

FOCAC 1, held in Beijing in October 2000, was the first summit to institutionalise relations between China and Africa. The commitments made at FOCAC 1 include the following:

- China will make available increased development aid to Africa, containing a specific focus on promoting African industry, utilising local materials, and local job creation.
- The formation of the China-Africa Joint Business Council to work alongside the Chambers of Commerce in African countries. The remit of the Council will be to provide support for Chinese investment and promote economic partnerships.
- China will assist Africa in promoting economic and social development by utilising the principle of South-South cooperation in supplying aid and loans.
- Providing back-up for Chinese corporations to contribute to the construction of infrastructure and other development projects in Africa.
- China would establish the African Human Resources Development Fund to train African personnel.

FOCAC 11 was held in Addis Ababa in December 2003. The Addis Ababa Action Plan was the main outcome, which can be summarised as recommending cooperation in four key areas:

- Political affairs.
- Multilateral cooperation.
- Development.
- The social realm.

FOCAC 111 was convened back in Beijing in November 2006. One of the key outcomes was the declaration of the Beijing Summit. Chinese president Hu Jintao presented an eight-point plan that would provide a framework for China's assistance to Africa in this summit, and these were:

**Box 9.1: The Forum on China-Africa Cooperation (FOCAC).**

1. China's assistance to Africa would double by 2009.
2. China would provide US\$3 billion worth of preferential loans
3. China would set up the China-Africa Development Fund providing a US\$5 billion incentive for Chinese firms to invest in Africa.
4. China would build a conference centre for the African Union.
5. China would cancel debt that entailed all interest-free loans that matured at the end of 2005.
6. China would open up their market to Africa by increasing zero-tariff treatments.
7. China would establish up to five special economic zones in Africa.
8. Up to 2009, China would 'train 15,000 African professionals, send 100 senior agricultural experts to Africa, set up 10 special agricultural technology demonstration centres in Africa, build 30 hospitals in Africa, ... dispatch 300 youth volunteers to Africa, build 100 rural schools in Africa, and increase the number of Chinese government scholarships to African students'.

Sharm el-Sheikh held FOCAC 1V in November 2009, where eight new measures announced by Premier Wen Jiabao succeeded the ones outlined at FOCAC 111, which had, according to China's Ministry of Commerce, been 'basically implemented'. The eight new measures were:

1. Establishing a China-Africa partnership to address climate change.
2. A Chinese promise to enhance cooperation in science and technology with Africa.
3. A Chinese promise to help Africa build up financing capacity.
4. A further Chinese promise to open up its market to Africa.
5. A further Chinese promise to increase assistance in the field of agriculture.
6. A deepening cooperation in the field of health.
7. Enhancing cooperation in human capital, with a Chinese commitment to

**Box 9.1 continued.**

‘build 50 schools and train 1,500 school principles and teachers’ from Africa; together with China increasing its ‘government scholarships to Africa to 5,500’ and China training ‘20,000 African professionals over the next three years’.

8. China and Africa will expand people-to-people and cultural exchanges. FOCAC IV concluded with the Sharm el-Sheikh Declaration which, amongst other things, agreed to increase the number of high-level visits between China and Africa; and the Sharm el-Sheikh Action Plan which included a Chinese pledge to build major infrastructure projects as a way of promoting Africa’s development. China pledged US\$10 billion worth of preferential loans to Africa up to and including 2012, which would be used in the main to support infrastructure and social development projects (Taylor, 2011: 35-43, 51-57, 70-73, 81-89).

**Box 9.1 continued.**

competitiveness so that they can both raise their status globally. Thirdly, China and Africa aim to develop cooperation to strengthen their bargaining stance with the West in order to create ‘a new, just, and equitable international economic and political order’ (Enuka, 2011: 222). However, Tull (2008: 6) reports that the European Commission has observed that ‘the FOCAC is simply a Forum to announce the aggregate results and will not establish a new structure of cooperation in Africa. It does not provide an impulse for multilateral cooperation or better African coordination. Indeed, the process lacks proper monitoring and accountability’.

**9.4: Chinese activity in Africa generally: the importance of oil.**

The Chinese have reopened Zambia’s Chambezi copper mines and are exploring supposedly exhausted oil reserves in Gabon. Of the thousands of projects under way, 500 are being exclusively directed by the China Road and Bridge Corporation, a SOE, helping to place 43 Chinese companies amongst the 225 global leaders in Africa. China is involved in telecommunications in Ethiopia (Servant, 2005: 58) where they have also been building roads (Zafar, 2007: 105); in the DRC they have done work for Gecamine,

the state-owned mining company; in Kenya they have repaired the road linking Mombasa and Nairobi (Servant, 2005: 58), worked with the electricity sector, and they have been servicing mobile phone networks; and together with also servicing mobile phone networks in Nigeria (Zafar, 2007: 105), China have even launched Nigeria's first space satellite (Servant, 2005: 58). Throughout Africa, Chinese companies are constructing vital infrastructure, including dams, ports, and roads; and helping to renovate government offices and other buildings (Zafar, 2007: 105).

However, Enuka (2011: 221) states that of all the natural resources that captures China's interest in Africa; which are for example aluminium, bauxite, copper, diamonds, iron ore, manganese, oil, and uranium;<sup>159</sup> oil is the most important. Oil makes up 62% of the total African natural resource exports to China, with Angola supplying 47% of the total, followed by Sudan supplying 25%, the DRC 13%, Equatorial Guinea 9%, and Nigeria 3%. For example, the China National Petroleum Corporation (CNPC) has invested in oil assets in Sudan and Chad. CNOOC has acquired energy interests in Morocco, Nigeria and Gabon. China already procures over a quarter of its oil and natural gas from Africa, with Sudan and Angola being the leading suppliers (Alden and Davies, 2006: 87-88). Boxes 9.2-9.5 provide background to Chinese oil sector activity in Gabon, Kenya, Nigeria, and Sudan.

### **9.5: Western perceptions on Chinese involvement in Africa.**

Tull (2008: 5-6) identifies four major areas for concern coming from the West concerning China's involvement in Africa. Firstly, in cases where Western budget support has led to a situation where this is used to finance the operations by Chinese firms, resentment has been the result amongst the Western donors. Secondly, China itself is becoming a major donor to Africa, and when one considers that the West still provides China with development aid, then it must be questioned whether it is still appropriate to continue giving China development assistance. Thirdly, in development circles it is considered frustrating that China is giving loans to African countries at the precise time that Western donors have granted African countries debt relief. Finally, the biggest problem concerning China's involvement in Africa, in Western eyes, is the lack

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<sup>159</sup> To highlight China's non-oil interests in Africa, China imports copper from the DRC and Zambia; cotton from Benin, Burkina Faso, Cameroon, Cote d'Ivoire, and Mali; diamonds from South Africa; ferrochrome and platinum from Zimbabwe; timber from Cameroon, the DRC, Equatorial Guinea, Gabon, and Liberia; and tin and tantalum from the DRC (Enuka, 2011: 221).

Gabon is a relatively small producer of oil, but it represents more than half of the state's revenues. In 2004, on the occasion of Hu Jintao's African tour, Total Gabon signed a contract with Unipecc, a subsidiary of Sinopec, under which Gabonese crude oil will be sold to China for the first time. Sinopec and the Gabonese energy ministry also signed a protocol at that time covering exploration and production, and an accord that is said to involve staff training and technology transfer. Sinopec subsequently received three oil blocks to develop. In addition, CNPC is said to have spent US\$350 million on the purchase of several refining businesses in Gabon. Furthermore, China is constructing a deepwater port at Santa Clara, north of the capital Libreville, and two railway lines that will be necessary for the joint production of iron ore in the northeast of the country.

Nevertheless, Sinopec is involved in a highly controversial oil prospecting project in the Loango National Park in southern Gabon, where it is said that Sinopec is 'using methods that respect neither the law nor the environment', causing much local discontent (Meidan, 2006: 79-81). In October 2006, Gabon ordered Sinopec to cease oil exploration in Loango National Park after an American conservation group accused Sinopec of destroying the forest environment and operating without an approved environmental impact study (Gill and Reilly, 2007: 46).

**Box 9.2: Chinese Oil Sector Activity in Gabon.**

On the last leg of President Hu Jintao's visit to Africa in 2006, Kenya became a Chinese target. An offshore oil exploration deal was signed that allows CNOOC to explore in six blocks in the north and south of the country. In addition to the oil agreement, several other cooperation deals were signed. China gave Kenya grants of approximately US\$8.7 million, including an economic and technical cooperation package, donations of rice for drought victims, and anti-malaria drugs (Meidan, 2006: 81).

**Box 9.3: Chinese Oil Sector Activity in Kenya.**

In December 2004, Sinopec and the Nigerian National Petroleum Corporation (NNPC) signed an agreement to develop the Niger Delta's Oil Mining Leases OMLs 64 and 66. In addition, Sinopec has a contract with the Nigerian Petroleum Development Company and with Eni to develop the Okono and Okpoho oil fields, whilst CNOOC and NNPC signed a US\$800 million contract guaranteeing oil exports to China in July 2005. In April 2006, Nigeria built on such developments to offer CNPC four exploration licenses in exchange for US\$4 billion worth of infrastructure developments (Taylor, 2009: 47-48); and furthermore, CNOOC, in January 2006, agreed to pay US\$2.3 billion for a stake in a Nigerian oil and gas field. The CNPC deal involves China buying a controlling stake in Nigeria's Kaduna oil refinery and building a railway and power stations (Meidan, 2006: 81), whilst the CNOOC deal was complemented by the Chinese committed themselves to building a railway connecting Lagos with Abuja, the capital; and to install telephone services in rural areas using Chinese government loans of more than US\$200 million (Zafar, 2007: 120). This CNOOC deal eclipsed the much reported US\$1.25 billion (rising to US\$1.75 billion by assuming US\$500 million worth of debt) purchase by Chinese computer manufacturer Lenovo of IBM's personal computer business in December 2004, which was then China's largest foreign acquisition (Ling, 2006: 363-364), and was despite that fact that industry analysts believed that the Chinese had over-estimated the potential returns. Undoubtedly, an additional promise to provide US\$7 billion in investments, together with the rehabilitation of two power stations and a willingness to sell arms for use in the on-going conflict in the Niger Delta, secured this deal (Alden and Davies, 2006: 91-92).

Similar to Angola, Nigeria is governed by a small political elite that has grown wealthy at the expense of the rest of the population. This has implications for Nigeria's development, since the political elite, according to Lewis (2004: 100), is 'impelled by short time horizons [which gives] rise to strategies focused

**Box 9.4: Chinese Oil Sector Activity in Nigeria.**

on the expedient redistribution of resources rather than the systematic mobilisation of resources for production and growth'. This has led to the Movement for the Emancipation of the Niger Delta (MEND) conducting attacks against the national government for many years because they believe that oil producing areas do not receive a fair share of oil revenues. MEND has warned the Chinese and other potential foreign firms against investing in the Niger Delta. Indeed, over a dozen Chinese nationals from a variety of Chinese firms have been kidnapped recently, but later released (Eneka, 2011: 226-227).

**Box 9.4 continued.**

In Sudan, 13 of the 15 largest foreign firms engaged in operations are Chinese, and these are primarily in the oil sector. CNPC owns a 40% stake in the Greater Nile Petroleum Operating Company, whilst Sinopec is constructing a 1,500-kilometer pipeline to Port Sudan on the Red Sea, where China's Petroleum Engineering Construction Group is building a tanker terminal (Gill and Reilly, 2007: 40).

China has aided infrastructure development such as schools, hospitals, and water projects in Sudan; all of which tackles the root cause of conflict, poverty, which China's aid targets (Anshan, 2007: 77). In addition, China launched an ongoing programme in 1996 to construct a modern export industry that would serve not only as a source of oil but also as an opportunity to showcase Sinopec's growing expertise to the world.

However, Chinese military hardware and diplomatic support for the policies of Sudanese government in Darfur and its ongoing conflict in the South have played a significant role in maintaining this relationship (Alden and Davies, 2006: 92).

**Box 9.5: Chinese Oil Sector Activity in Sudan.**

of proper monitoring and accountability in Sino-African relations and business dealings. For example, the growth of Chinese arms sales is an important aspect of Chinese relations and business dealings with some African governments, particularly with governments that are banned from procuring arms from traditional Western sources.<sup>160</sup> In 2003, China sold arms worth US\$1.3billion to Africa, over twice as much as the UK (Alden, 2007: 25). The CORE Coalition anonymous source states that:

*“I think that there's generally a lot of scepticism about foreign direct investment, particularly in the extractive sector in terms of the impact on the environment and people, and [in addition,] the resource curse; the Chinese companies certainly aren't going to be exempt from all of that. [Nevertheless,] I am conscious of the fact that there is a lot of anti-Chinese feeling going on which drives this debate ... and I think that there is a quite patronising colonial attitude by a lot of Western ... people. [However,] in terms of ... [Westerners] voicing concerns about the lack of Chinese standards ... I take a lot of that with a pinch of salt”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

The Western media has certainly voiced concerns considering Chinese involvement in Africa.<sup>161</sup> Professor Child commented upon the Western media's negative perceptions on what China is doing in Africa by stating that:

*“There's always a tendency to criticise a powerful nation ... particularly if that nation starts to flex its muscles and is seen to be throwing its weight around”* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

Professor Child then confirmed the view of the CORE Coalition anonymous source that one should take Western concerns about the lack of Chinese standards ‘with a pinch of salt’ by saying that:

*“They're just as concerned about their future as any other nation. I think criticism of China's ascendancy isn't entirely fair”* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

These views that the criticism of China is unfair was echoed by Jonathan Samuel, regarding them to be hypocritical when one considers, as he states:

*“it is important to note that some Chinese firms do have high standards,*

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<sup>160</sup> Such governments include ‘pariah’ states like Sudan and Zimbabwe (Alden, 2007: 25).

<sup>161</sup> For examples see: ‘Chinese thrown out of Africa’, available at <http://www.asianews.it/index.php?1=en&art=11266>; Trimberg, C. (2006) ‘In Africa, China's trade brings growth, unease’, Washington Post, 13 June; Johnson, R.W. (2006) ‘China's empire-builders sweep up African riches’, Sunday Times, 16 July.

*and that many Western ... ones don't. Indeed, I could name highly corrupt UK-based ... companies” (Samuel, J., email interview, 26<sup>th</sup> February, 2011).*

## **9.6: China as a development partner.**

At the heart of China’s rapid entry into Africa is a deliberate policy of ‘no strings attached’ (see below), particularly in the arena of governance (Alden, 2007: 8). The CORE Coalition anonymous source commented upon Western firms being affected by Chinese investment by stating that:

*“I think developing countries have got governments that generally have got a strong desire for foreign direct investment. It’s obvious that they want to maximise that investment with minimal risk and with minimal conditions attached” (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).*

This represents a direct challenge to the traditional Western pre-eminence in African economies because Western entrance into Africa often had ‘conditions attached’ in the arena of governance, and Western firms viewed themselves as conductors of sound corporate governance in their activities there, something that Chinese firms may not do. However, some observers consider that the West had never promoted sound governance in Africa, and engaged in a resource grab.<sup>162</sup> Nevertheless, other observers believe that a resource grab in Africa is just what China is now engaging in, adding to the West’s resource grab. A further interpretation regards China’s new engagement in Africa as a new coloniser.<sup>163</sup> Although Western political and military control over Africa ended when African states gained independence, some believe that the West is now engaging in ‘neo-colonialism’, whereby the West maintains control over Africa economically. China’s entrance into Africa represents a challenge to the West as ‘neo-coloniser’, resulting in competition over who can control the continent economically. However, another interpretation regards China as a development partner<sup>164</sup> with Africa (Alden, 2007: 5-6, 9). Whichever interpretation is accurate, it is clear that China’s involvement

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<sup>162</sup> A ‘resource grab’ involves taking no account of local needs, whether developmental, environmental, or social (Alden, 2007: 5-6).

<sup>163</sup> China as ‘new coloniser’ involves a long-term strategy which aims to displace the traditional coloniser, the West. (Alden, 2007: 6).

<sup>164</sup> As ‘development partner’, China’s entrance into Africa is part of a long-term commitment which aims to transfer China’s development experience to Africa as part of a desire to build south-south partnerships. (Alden, 2007: 5).

in Africa is a challenge to the West's pre-eminence on the continent. Commenting upon whether China could be seen as a development partner or neo-colonialist, Doctor Hale believes that:

*“it depends who [you talk to] and which way you look it. It's certainly no worse than the model that they've had before. [Nevertheless,] I think what the Chinese are after is resources, ... that's the bottom-line. I think they're very canny in doing that”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

Therefore, it is possible to speculate that China is engaged in a resource grab in Africa. Indeed, commenting upon whether China could be seen as a development partner, Doctor Gbadamosi stresses that:

*“I think primarily, for now ... it's a lot more important for the Chinese Government to get ... their two feet on the ground, ... to feel that they really have captured that particular market, [and then] maybe issues of ... development and the Angolan people will begin to come up with a second segment of the agenda. [However,] there are a number of ... Africans who are not very happy with the existing ... status quo. So we are happily clamouring for a change. So anything that will provide an alternative [should be] tested”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Therefore, whilst Doctor Hale believes that the Chinese are only after resources and 'that's the bottom-line', Doctor Gbadamosi believes that China may only be engaging in a resource grab for now, and as the new entrants, Africans are more than happy to experiment with Chinese involvement to see whether it is preferable to Western investment. Subsequently, Doctor Gbadamosi believes that the initial resource grab may pave the way for China becoming more of a development partner once they are established. Consequently, which viewpoint is believable? When one considers the Chinese ruling party's political values coming from their institutional environment, which is to achieve the principle of a harmonious society, and it implements this in its domestic and foreign policies (Zhang and Li, 2010: 204), then the view of Doctor Gbadamosi is applicable. Nevertheless, Doctor Hale does state that what China has:

*“got going for them is they can cast themselves as a developing nation”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

Therefore, does this mean that Western firms have the incentive to be more proactive as developmental agent now that China, another developing country, is involved in Africa? Concerning Anglo American's attempts to act as a developmental agent, Jonathan

Samuel states that:

*“it is certainly true that we are trying to be a more proactive development partner for host communities, although generally via ‘softer’ measures such as education, enterprise development and community-based projects rather than large-scale infrastructure. However, this isn't in response to Chinese competition. Rather, it is in response to a greater desire for these things from our host governments and communities”* (Samuel, J., email interview, 26<sup>th</sup> February, 2011).

Consequently, although the Chinese engage in large-scale infrastructure development (see below), Western firms may not act as a developmental agent in response to Chinese competition, but they are acting after engaging with host country institutions and local communities at the macro-level.

### **9.7: Africans preferring Chinese investment.**

If Western criticism of China's involvement in Africa is not entirely fair, as seen above, then what are the perceptions of the Africans themselves? Professor Child commented on Chinese national champion SOEs going abroad, and stated that:

*“A lot of the ground is laid government to government”* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

Therefore, this involves interaction between host country governments and the Chinese state at the institutional environment level. Professor Child further commented upon China dealing with the Angolan government by stating that:

*“It gives them a short term advantage [and] some people say there are signs that ... Africa is becoming ... more democratic, more open, in which case this Chinese approach ... will possibly not be so consistent with the local situation”* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

Therefore, Professor Child feels that the Chinese way of dealing government to government is preferable to African governments for now. China does put a lot of importance into good relations with African political elites (Rebol, 2010: 179), and indeed, Rampa and Bilal (2011: 33) confirm that China's overall package of public assistance and business agreements that are facilitated by government to government relations can be seen as a competitive disadvantage for Western companies. Whilst it is true that many African governments prefer Chinese investments that come without requirements for governance reform (Rebol, 2010: 159), Urban *et al* (2011: 17) feel that this approach does not limit Chinese engagement with increasingly more

democratic countries in Africa. However, one has to agree with the viewpoint of Professor Child since, as Rebol (2010: 164) state, opinions of the people of Africa towards China might be developing more on a national level (through the media and political campaigns, for example) and depend more on how links with China affect the country as a whole, rather than different parts of a society. This is because ethnicity, educational background, rural/urban distribution, or income, are all less significant than the one single variable of country of origin. As Rebol states, Ethiopian, Kenyan, and Sudanese people are mostly positive towards China with relatively little variation of this viewpoint throughout society; whilst the people of Botswana and Zambia have the most negative views<sup>165</sup> (with Egyptians, Ghanaians, Nigerians, and South Africans in the middle). This is interesting, since Botswana is a country that has built significant institutional capacity and is more open than other African societies, and therefore, Professor Child may be correct if other countries in Africa develop in the same way as Botswana has.

A major feature of the Chinese way of doing business is the *guanxi* culture<sup>166</sup> within which gifts are exchanged. Doctor Gbadamosi comments upon the issuing of gifts, to get support on the ground, by stating:

*“Culturally gifts are not indecent, they are not corruption in much of Africa ... and you don't turn it down because ... you think you are being bribed”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Egbue (2006: 86) confirms this, by saying that gift giving is a valued aspect of African tradition. Gift giving serves as an informal symbol of expected gratitude for benevolence received; and can take the form of money, clothes, farm produce, and animals, for example. Gift giving, according to Egbue, also serves traditionally as a means for obtaining support in Africa. This may be for a planned business venture, and

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<sup>165</sup> The negative perception amongst Zambians is due to a highly publicised workplace accident. As Gill and Reilly (2007: 46) explain, ‘one of the most visible cases of a negative backlash against Chinese businesses was in Zambia, where on April 20, 2006, an explosion at a Chinese-owned copper mine killed 51 Zambian workers. Although Chinese firms had invested more than US\$300 million in Zambia and employed more than 10,000 Zambians, a presidential candidate for the October 2006 elections, Michael Sata, made an anti-China message the centrepiece of his campaign. The Chinese ambassador initially threatened to sever relations with Zambia if Sata won, but Beijing later distanced itself from the ambassador’s remarks, and Sata lost the election’.

<sup>166</sup> *Guanxi*, as part of networking in business circles, involves a series of activities that are largely pre-planned and carried out between two or more parties. Such activities can include gift-giving (Fan, 2002: 371).

in such cases, receivers are expected to reciprocate by not only giving a similar gift back, but also by providing some form of favour.

Commenting upon the Chinese culture of giving gifts as part of the *guanxi* culture, in the context of Chinese investment being looked upon as being very welcome, Doctor Gbadamosi comments:

*“Absolutely, ... you’ve just had an oil block in an area. There’s a community living around there and you’ve gone to visit the head of the community, ... ideally you take a little gift [and] in return you always will get gift back. [However,] what has changed ... is that those gifts used to be symbolic gifts, ... but now it’s all about opening a Swiss account ... which is quite different. It’s now about opening an account in some island somewhere where this money’s a very big amount, ... so even Africans recognise clearly that this is no longer a gift, this is a corrupt practice”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Therefore, exchanging gifts is a way that the Chinese can get support from local communities. However, the Chinese are giving large amounts of money to various parties. Arbab (2007: 51) confirms this by saying that in Africa, ‘international observers fear that the Chinese way of doing business – paying bribes and attaching no conditions – undermines local efforts to increase transparency and good governance’. Indeed, Chileshe (2010: 11) states that ‘what is alarming is that the Transparency International’s Bribe Payers Index<sup>167</sup> rates Chinese businesses as some of the most willing to give bribes’. For example, Congolese workers and civil society representatives have expressed concerns over the habit of Chinese company representatives to pay bribes to ‘get out of situations’ (Jansson, 2010: 3). Therefore, the locals can recognise that this is no longer ethical which could mean that dealing with the Chinese is not well received by all parties. Nevertheless, as Doctor Gbadamosi also comments:

*“in a community where [operations have been conducted by] Shell, ... Chevron-Texaco, ... [and] BP for a very, very long time, ... you’ll find that even though the community has a population of about 150,000 people, ... they’ve watched and waited and hoped that this oil company will do something to help their school or ... hospital, and nothing has happened. ... The Chinese ... come in to say, ‘we can do that’, before they even start business, what do you expect from the community? They’re not*

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<sup>167</sup> Transparency International’s Bribe Payers Index is a ranking of 30 of the leading exporting countries according to the propensity of firms to bribe when operating abroad. It is based on the responses of 11,232 business executives from companies in 125 countries (Chileshe, 2010: 13-14).

going to turn that down” (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Consequently, if the Chinese are promising to make local content improvements (socio-economic needs at the macro-level), then Chinese investment would be well received in the local communities.

### **9.8: Chinese investment: ‘no conditions attached’.**

Professor Frynas commented upon African host governments possibly preferring Chinese investment by saying that:

*“Chinese [investment does] not come with the baggage of the West [because] the Chinese [come with] no strings attached. [In addition,] ... as part of a deal you may have roads built or other infrastructure improved and ... you will find [the African governments] very sympathetic ... since there’s a great need for these things in many countries, ... [and] sometimes you have loans to [African] governments as part of those deals [without] the necessity to comply with certain rules, ... not just ones that foreign governments may have or companies may have, but from the International Monetary Fund and the World Bank, ... so ... it’s more than natural for any government to prefer a Chinese competitor ... because of all of these advantages” (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).*

Therefore, Chinese investment may be preferred by African governments because it comes with ‘no conditions attached’ concerning governance and transparency, which the West insists upon. In addition, one sees complimentary investment from the Chinese government, and African countries get infrastructure improvements as part of any deal.

Professor Child confirms that Chinese investment may be preferred by African governments because, as he states:

*“I think the Chinese would say their principle is ‘no conditions attached’. So they’re not going to ask too many questions and worry too much about people’s practices. That I think in the eyes of local politicians would obviously give them a considerable advantage. ... I suspect the Chinese are clever enough to adapt to the local system and they may well prefer to deal with people who are in a system that is not so open, where not so many questions are asked even by Africans” (Child, J., personal interview, 25<sup>th</sup> November, 2010).*

Therefore, the Chinese oil SOE’s must be considered to be firms that engage in institutional adaptation, where they adjust their own policies to better fit the

environment, and they certainly do not promote elements of institutional development through the process of co-evolution. Attention will now turn to considering the role of the Chinese state in their support of the Chinese oil SOEs.

### **9.9: The role of the Chinese state: complimentary investment.**

Concerning state patronage from the Chinese institutional environment for their ‘national champions’, Professor Child states that:

*“It [state patronage] is very important and there’s still a lot of guidance regarding their [the Chinese] strategic priorities coming from the state”* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

This is supported by the evidence presented in Chapter 6, where it was seen that state patronage was extremely important in the earlier adoption of the corporate form, and this has clearly influenced practice today. Doctor Hale provides further reflection that the Chinese state continues to play a major role, by stating that:

*“It’s the mix of state and market with the Chinese. It certainly wants progress, but modernisation does not equate with Westernisation. Modernisation means, I guess, a brand of capitalism, but it will be a Chinese brand of capitalism”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

If this Chinese brand of capitalism involves the significant influence of the state, then one must consider how this has evolved. According to Doctor Hale:

*“The planned economy failed in China, just as it failed in the USSR. ... What has been introduced since 1979, ... it’s much more pragmatic. [Nevertheless, one] quote that [Deng Xiaoping was] famous for was how to cross a river. ‘One might as well cross the river feeling one’s way with one’s feet’. In other words, you do it gradually and you do it very clinically, and that’s what’s happened since 1979. Whereas you had a shock therapy approach in Europe when the Communist Parties went, what you have in China is a gradualism, and it’s worked in the sense that it’s opened up the economy, it’s allowed market forces in, but it’s all under the control of the government”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

Therefore, how has this gradualism under government control manifested itself in terms of corporate governance? As Doctor Hale states:

*“The government still has a large amount of control within the economy. So, in my understanding anyway, what you see in a Chinese firm [is] ... the government speculates an active role by holding onto shares”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

Therefore, for the large SOEs, the Chinese government continues to be the major shareholder. Professor Child commented on Chen (2005) writing that China's corporate governance model was Anglo-Saxon in principle, but in reality it's a mixture of both the Anglo-Saxon and German Japanese model and upon the emergence of organisational hybrids,<sup>168</sup> by saying:

*"That wouldn't surprise me. [Nevertheless,] corporate governance, if you take the traditional and I think the rather narrow view [of the principal-agent problem], ... I think that mechanism is very much in place in China because the principal there is the state. The state if anything is increasing its governance powers, ... so I think the one thing the Chinese authorities are most concerned about is exerting control. From that point of view their governance system is actually fairly effective"* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

Therefore, the Chinese state maintaining control produces an effective corporate governance system because the state acts as the principal. Doctor Hale, commenting upon this notion of what could be called politicised capitalism, stated that:

*"just like the Japanese developed their own institutions within the firm and external to the firm, I guess you might get a model developed in China which is similar to that. It won't be exactly the same, but it would certainly be closer to what I would call state-led capitalism"* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

Therefore, whether it is termed 'politicised capitalism' or 'state-led capitalism', and commenting on this, Professor Child confirmed that:

*"Some people call it state capitalism, yes"* (Child, J., personal interview, 25<sup>th</sup> November, 2010),

the Chinese national champion oil firms are entering the market whilst enjoying preferential treatment from the Chinese state. Furthermore, the Chinese state makes complimentary investment in the host countries where their 'national champions' are engaging in operations, embracing co-evolutionary government to government interaction, as will now be outlined.

### **9.9.1: The nature of the complimentary investment.**

Professor Frynas states that:

*"Chinese firms could ... be accepted [in Africa] ... because [they provide] other incentives"*.

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<sup>168</sup> See Chapter 6.

As Professor Frynas continues, these other incentives, including institutional environment level intergovernmental interaction, such as soft loans, means that:

*“Chinese firms have a major contractual advantage [in comparison with Western firms], this is very, very clear”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

This major advantage that Chinese firms have in receiving formal licences to operate involves the complimentary investment that the Chinese government offers, and the literature provides plenty of evidence to support this, as will now be outlined.

Whilst it is true that Angola has not signed up to the EITI, initially the country did consider it. In fact, representatives from the Angolan government and Sonangol attended the 2003 EITI launch conference; and in November 2004 the Angolan deputy prime minister, Dr. Agualdo Jaime, expressed a desire for Angola to join. The reason for this expressed desire to join was to finalise a loan from the IMF, which included conditions concerning governance and transparency. However, by early 2006 Angola’s desire to sign up to the EITI had faded. This was because, as the Angolan government subsequently announced, there was no longer an interest in borrowing from the IMF as Angola could now receive huge loans from other sources. Indeed, the fact that in March 2004, Angola had signed a US\$2 billion credit line with Ex-Im Bank of China<sup>169</sup> (Shankleman, 2006: 104-105) is perhaps of no coincidence. The complimentary investment, in the form of loans, by the Chinese state to seal oil concessions is obviously another source of borrowing that means that Angola does not have to rely on the IMF. Therefore, it is clear that complimentary investment by the Chinese state saves Angola from depending upon Western sourced loans that have conditions attached concerning governance and transparency.

Angola provides a clear example of the way that China seals licences to operate in Africa with the complimentary investment made by the Chinese government. For example, the Indian state-owned oil company Oil and Natural Gas Corporation believed

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<sup>169</sup> The most important Chinese bank in its foreign policy towards Africa is the Export-Import Bank (Ex-Im Bank). The Ex-Im Bank is a state-owned entity that the Chinese government utilises to dispense official economic aid around the world, including to Africa. The Ex-Im Bank provides low-rate loans for aid programs and encourages Chinese firms to invest in Africa through export credits, loans for overseas projects, and international guarantees. 80% of all Ex-Im Bank loans to Africa goes to five countries: Angola, Mozambique, Nigeria, Sudan, and Zimbabwe (Gill and Reilly, 2007: 43).

that it had secured a joint-venture with Royal Dutch Shell for Angola's Block 18. However, Sonangol handed the concession to Sinopec in a last minute decision. The critical factor in Sinopec sealing the deal was a US\$2 billion loan to Angola made by the Chinese government. This loan freed Angola from its reliance upon funding from the IMF, and the conditions attached that accompany loans from the IMF. In addition, China has funded, provided expertise, and its own labour force to reconstruct Angola's destroyed infrastructure, particularly the transportation infrastructure. For example, the Chinese government gave US\$300,000 towards refurbishing the Benguela railway, US\$2 billion to reconstruct the railway between the port of Namibe and Menogue, US\$450 million towards Luanda's new airport, as well as US\$3 billion to build an oil refinery in Lobito (Alden, 2007: 44). Commenting upon whether complementary investment is an advantage for the Chinese firms, Doctor Hale confirmed that:

*“Of course it is, because it's an alternative model to a failed Anglo-Saxon model which in Africa is seen as imperialism”* (Hale, A., personal interview, 22<sup>nd</sup> November, 2010).

If Doctor Hale is correct, then one could argue that the complimentary investment by the Chinese government is a competitive advantage that Chinese oil firms have, representing a specific O advantage that the Chinese 'national champion' SOEs enjoy. China has been securing agreements with African governments by engaging in the construction of prestige projects such as, for example, funding the construction of a new Ministry of Foreign Affairs in Angola. Such a form of symbolic diplomacy is appealing to African elites because they embrace the opportunity to replace colonial public buildings. In addition, such construction represents a visual demonstration of China's intent (Alden, 2007: 23). However, as Ofodile (2009: 96) asks, 'does development mean prestige projects such as fancy houses for dictators, conference centres for corrupt leaders and sports stadiums for starving masses or does it mean people-centred, pro-poor, sustainable development?' Ofodile feels that China should 'support measures and institutions that are more likely to be supportive of development'. Therefore, China's complimentary investment may be appealing to African elites, but it is not necessarily supportive of development. Indeed, according to Zafar (2007: 121), China has not 'linked its loans to these [African] countries to social expenditure'.

### **9.9.2: Building infrastructure.**

The other major contractual advantage that the Chinese have is infrastructure development, a commitment made at FOCAC 1<sup>170</sup> to address a vital macro-level socio-economic need. According to Alden and Davies (2006: 90), with energy security at the heart of China's involvement in Africa, 'the role of Chinese MNCs and in particular those in the petroleum ... industry as well as related infrastructure development, had become a significant feature of the African ... development landscape'. Furthermore, Taylor (2009: 22), states that a 'positive aspect of Chinese investment for ordinary Africans is its focus on building infrastructure, a need ... ignored by Western donors in recent years'. This confirms interviewee evidence. As Professor Child states:

*"The Chinese put in a lot of infrastructure ... [and] there is a long history. They built the railway in Tanzania. That was back in the 70s".*  
(Child, J., personal interview, 25<sup>th</sup> November, 2010).

Doctor Gbadamosi comments upon the Chinese building infrastructure by saying that:

*"they, [the Chinese,] have tried so much in Nigeria ... you could see that everywhere, including pipelining in the oil business ... and you will find that in terms of transportation, the haulage business, the construction, and particularly in the railways. There's just road works everywhere in Nigeria now, and they're getting stronger. ... In the transportation sector, ... they, [the Chinese,] are working very hard on trains in most of Africa, and ... this has been a massive developmental issue in Africa. It's been at the pain of all the social problems that many African countries have [and] the Chinese are turning that around, literally"* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

The railway in Tanzania that Professor Child refers to concerns China's construction of the TanZam railway which occurred between 1970 and 1975, linking the Zambian Copperbelt with the Tanzanian coastal port of Dar es Salaam, and it is remembered positively throughout Africa, a fact that is reflected by Doctor Gbadamosi's positive expression as an African of China's rail transportation infrastructure improvements, together with Taylor's opinion. This transportation infrastructure project contained many of the elements of China's current approach to Africa, including a preference for utilising Chinese labour, constructing high-profile prestige projects to signify relations,

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<sup>170</sup> See Box 9.1.

and institutional environment level government to government interaction<sup>171</sup> (Alden, 2007: 15, 17). The TanZam railway represented a commitment by Beijing to promote pan-African economic development, enhancing China's credibility on the continent (Yu, 1980: 141), and can therefore be seen as the benchmark in Sino-African interaction. Indeed, according to Alden (2007: 73), 'the spectacle of thousands of Chinese workers diligently building the railway, living modestly and conducting themselves with decorum, made a lasting and positive impression', reflected by the way Doctor Gbadamosi positively commented on the Chinese constructing such projects.

However, throughout its operational history, the TanZam railway has experienced numerous problems and it has not functioned efficiently because of, in economic terms, depreciated capital stock. It has been plagued by a severe shortage of equipment, especially poorly-powered Chinese locomotives, a slow turnover of stock, and a lack of spare parts. It was only because of further Chinese financial aid that the railway has been able to function at all. The fortunes of the railway did enjoy an upturn when its authorities purchased new German rail stock, refitting the Chinese locomotives with more efficient German engines. Nevertheless, the railway continues to suffer from poor management and a shortage of skilled workers (Taylor, 2006: 62), and according to Alden (2007: 52), only a small number of Chinese stayed on after the completion of the TanZam railway, as is always the case with such infrastructure projects today in the sense that the Chinese construct, for example a railway, and then move on and build another one somewhere else.

Therefore, the positive interviewee evidence is questionable because if the Chinese are not training locals to maintain the transportation infrastructure that they are constructing after they have moved on, and as argued below the Chinese are not providing the necessary education and training to locals, then the example of the TanZam railway offers a warning considering the many such projects that are now being built. In Angola today, such projects that are financed by Chinese money are obliged to contract only 30% of the construction work to domestic firms (Zafar, 2007: 120), and therefore, what is going to happen when maintenance is required and what are

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<sup>171</sup> The Chinese built the TanZam railway because of a direct request made to them by the then Zambian president, Kenneth Kaunda, seconded by his Tanzanian counterpart Julius Nyerere who admired Mao's policies (Alden, 2007: 17). Previous proposals were submitted to Canada, the former Soviet Union, the UK, and the UN; all of whom rejected the project based on the fact that they thought it would turn out to be an expensive mistake (Yu, 1980: 123).

the implications for the day-to-day operation of these projects if the Chinese are not training locals to perform these tasks?

### **9.10: Chinese labour.**

BP states that:

“A progressive recruitment and development programme in Angola is helping to break down traditional barriers to entry into [an] industry ... where BP has relied heavily on expatriate staff in the past, the initiative has focused on the recruitment and training of local candidates to provide a steady stream of skilled technicians. Aimed at men and women from all social backgrounds and at different educational levels, the programme is delivered in four stages, using Portuguese as a first language and including vocational training in South Africa. It is providing opportunities for local people and demonstrating BP’s willingness to work with the Angolan people and government” (BP, 2002b: 25).

However, do the two Chinese oil companies (CNOOC and Sinopec) that are engaged in operations in Angola at the micro-level also recruit and train locals, a vital macro-level socio-economic need? One can see in Box 9.1 that one of the commitments made at FOCAC 1 was local job creation and to train African personnel (training was subject to further commitments at later Forums), addressing socio-economic needs at the macro-level and education at the institutional environment level. Indeed, CNOOC claims that as its:

“overseas business grows and expands, the number of its overseas employees increases year by year. As of now, the number of employees serving the Company outside the Chinese mainland has exceeded 1,000. They work in different countries and regions around the world, including ... Africa ... [and] employee localisation is an important aspect for a company’s globalisation. CNOOC Ltd. adopts and promotes a localisation and diversification strategy for its overseas employees. It recruits a lot of local employees and promotes the development of employees with different nationalities. At present, local employees account for 90% of the Company’s total overseas staff. [In addition,] in its overseas operating units, CNOOC Ltd. provides local employees with support in education and training. The aim is to help them to realise personal development. To enrich overseas employees’ career experience and obtain more career development opportunities, CNOOC Ltd. is implementing an employee exchange program [where] local employees are able to work and learn in the headquarters in China. Dozens of employees have benefited from this program so far” (CNOOC, 2009b: 17).

Sinopec claims that:

“We have been insistent on the principle of ‘attracting international talents and engaging local personnel’. We source international talents from global market and recruit technical and operational employees with local nationalities. We strive to develop on various employment forms a diverse international talent pool with professional skills and capabilities. Currently, our overseas employees reside in 52 countries and territories and amount to 22,000 people. The number of foreign nationals working for Sinopec is 14,000, making up 63% of overall payroll. When carrying out overseas operations, we strive to strengthen the team-building for three types of talents--senior executives, technicians and skilled workers. We select and employ outstanding employees, strengthening employees’ comprehensive skills training, carefully evaluating the result of training programs, encouraging team spirit, and creating a harmonious and friendly workplace for foreign and Chinese employees. At present, our overseas local employees are assigned to different departments of the company, including the departments of technical management, specialised management, and business administration. [Furthermore,] in every host country where Sinopec operates, the local personnel [have] been trained to develop many areas of expertise, including development and production, geophysical exploration, drilling ... and engineering construction. This has laid an important human resource foundation which enabled the host countries to foster independent development and manage the oil industry in the future” (Sinopec, 2010: 68).

Therefore, CNOOC and Sinopec have employee localisation and training policies that reflect those under taken by Western firms. CNOOC claim that local employees account for 90% of their total overseas staff, whilst Sinopec claim that foreign nationals make up 63% of their overall payroll (see above), and both these figures compare favourably with the number of locals for are employed by Western firms. For example, as of 2006 about 88% of Chevron’s employees in Angola were Angolans (Chevron, 2006: 26). Nevertheless, can these bold claims of CNOOC and Sinopec be ratified, confirming that their localisation and training policies are actually being implemented?

Abe and Shimizutani (2005: 7, 14) conducted a comparative study to examine the relationship between the employee-oriented governance system and measures for downsizing employment in large Japanese firms. They found that outsiders (Anglo-Saxon) are more motivated to commit to wage cuts, layoffs, and voluntary retirement, while insiders (German-Japanese) are more inclined to commit to decreases in new hiring. Insiders are more inclined to protect incumbent employees. These findings are consistent with the stakeholder view on firms because one can see in Chapter 6 that China’s evolving corporate governance model is essentially an insider system.

Therefore, if Abe and Shimizutani are correct, Chinese firms when they go abroad would not be inclined to new hiring of locals. Empirically, is there any evidence to suggest that this is the case?

Professor Child states that:

*“One hears reports of tensions in some places with local staff, local workers because there’s some projects, the big projects, they bring in Chinese workers. So the complaint is they’re not doing anything really for Africa. .... I don’t think [that the Chinese are] very accommodating towards the locals in a context such as Africa. ... My impression is that they provide the minimum of training that they need to, to train up the locals for employment. I would not be surprised actually because there’s always been a sharp distinction in Chinese culture between the Chinese and the foreigner”.*

This is because, as Professor Child points out:

*“this is a kind of reversion ... to a Confucian view of leadership, the importance of leadership but the particularly Chinese aspect of it is that it’s supposed to be leadership of effectively a kind of family, with mutual obligations. This is very strong in Confucianism and you’re seeing this as far as I can tell in the culture of some of these even large enterprises. ... It’s also the leadership claiming and trying to demonstrate respect for the [Chinese] workforce, and indeed starting to put a lot of training and a lot of investment into [that] workforce. [Indeed, respect for the Chinese workforce] seems to be a characteristic as far as I can tell of many of the state enterprises. [This] also ties in with the social safety net whereby they have in the past tried to avoid lay-offs but there have increasingly been lay-offs particularly from failing state enterprises. I think probably for the successful ones they still maintain a sense of security because that’s part of this package, you know looking after your followers”*  
(Child, J., personal interview, 25<sup>th</sup> November, 2010).

Therefore, this links to the importance of the social safety net.<sup>172</sup> Doctor Gbadamosi comments upon the Chinese not employing locals, supporting Professor Child’s views, by saying that:

*“when people talk about the prospect of Chinese business in Africa I always alert people to ... gainful employment to everybody and winning assistance of these communities. But in my experience and my opinion, the Chinese are not exactly very interested in that. ... Over time Western businesses empowered the people, trained them [and] completely handed over a significant part of running many operations to citizens who trained locally or even came to this part of the world to train. [In contrast,] China seems to be a lot more interested in bringing*

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<sup>172</sup> See section 6.9.

*in their own people, even to do most elementary kind of job that any fool probably would be able to do, who is given the right tools and equipment. ... "It will get to the point where they'll, [the Africans,] say, [to the Chinese] 'well even the British and the Americans have more locals than you have now. Soon you will have to get your act together'. ... I see that developing over time"* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Alden and Davies (2006: 93-94) confirm the views of Professor Child and Doctor Gbadamosi, by pointing out that an emerging debate surrounding Chinese investment in Africa concerns the Chinese practice of employing its own nationals. The failure to employ African workers can be regarded by as an important oversight with economic as well as political implications. The use of Chinese nationals, justified by their managers in terms of their cost, productivity, and cultural affinity, may seem misguided considering the extremely high rates of unemployment in Africa.

Further evidence from the literature confirms the interviewee evidence. According to Anshan (2007: 81), the Chinese rarely employ local workers in Africa because Chinese nationals are more familiar with the relevant technologies and face fewer language and cultural barriers when they are in communication with the Chinese management. In addition, Chinese workers are used to the demanding labour practices insisted upon by Chinese managers. They are accustomed to working long hours, working during public holidays, and working overtime on weekends. Therefore, from an economic perspective, it is more efficient and convenient for Chinese firms to recruit workers from China than to train local workers. Nevertheless, as Anshan (2007: 82) states, whilst for the moment the Chinese will continue to hire Chinese workers because of the short-term benefits they provide, as Chinese investment expands in Africa, 'they will shift towards greater localisation of their practices'.

However, using BP in Angola as an example, Western firms do already have far greater localisation policies than Chinese firms. As part of their Angolanisation programme, possibly influenced by their experience in Iran as was seen in Chapter 5 that in order to not enrage host countries significant numbers of locals should be employed, a lesson that has possibly been learnt from this experience, BP states that:

*"We aim to ensure that our workforce reflects the local communities in which we operate. This goal is underpinned by targets set by government for the recruitment, integration and training of Angolan nationals"* (BP, 2008c: 16).

Therefore, BP strives to meet targets set by Angolan legislation to recruit and train Angolan nationals, so as to gain favour with host country officials. As was seen in Chapter 5, the company initially enraged officials in Iran, but later accepted that host country nationals should be trained and integrated into firm activities, and subsequently Iranianisation was initiated. Indeed, Anglo American invests heavily in educational projects,<sup>173</sup> and therefore, this institutional environment level issue should be seen as highly relevant to the African setting. As Professor Frynas states:

*“BP has been faced with those [challenges] for a lot longer, certainly when you go back to the days of Anglo Persian and Anglo Iranian. ... This is certainly going to be an issue for the Chinese firms because they would be more traditional in using their own labour. So from that point of view, Shell or BP, you could think yes they are in a little bit better position, they’ve been thinking about it for longer. [However,] in the case of Angola ... there is a shortage of expertise in certain areas to comply with [these challenges]”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Indeed, the use of high numbers of Chinese immigrant labour can be explained by the lack of relevant expertise amongst locals to work in the oil sector in Angola. Furthermore, in awarding contracts, the MPLA government does not make specific provisions for the use of the local labour force, and consequently, Chinese labour continues to play a significant role because of this (Alden, 2007: 46, 84). Nevertheless, if the Chinese are not interested in training locals for employment, this situation will not be addressed. As Professor Child states:

*“if a Western firm offers training to local people it’s going to help with local employment ... I think that’s all about education”* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

Professor Child commented upon whether over time this is a lesson that a Western firm like BP has learnt whilst China have yet to learn by stating that:

*“I think that would be received positively, an effort to train people, local people. [Nevertheless,] the other problem from a local point of view as well is the Chinese tend to not only bring, often bring in their own workers, but they bring in their own management. So they are, a bit like the Japanese have sometimes been accused of being, they are sort of self contained which obviously is not going to lead to very good communication with ordinary people. They may have their lines established with the politicians, ... but it doesn’t mean to say that they’re*

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<sup>173</sup> See section 5.13.

*doing very much ... social responsibility in the sense of contributing to the local community” (Child, J., personal interview, 25<sup>th</sup> November, 2010).*

It is reasonable to conclude therefore, that the bold claims of CNOOC and Sinopec concerning employing and training locals should not be taken at face value. Indeed, we saw in Part 2 that one of the problems of firms providing their own accounts of their CSR is that they could mask negative impacts and, in particular, they could misstate their performance,<sup>174</sup> and this certainly appears to be the case concerning this issue.

### **9.11: Social and environmental issues.**

The Chinese government is standardising the behaviour of Chinese firms abroad by developing environmental and corporate laws at their institutional environment level. Through these regulations, Chinese firms overseas must factor social and environmental responsibility into their business plans (Anshan, 2007: 86) to address macro-level socio-economic needs. Concerning environmental issues, CNOOC claims that:

“the natural environment is essential to human survival and development. It is also a fundamental source from which the Company acquires its oil and gas resources and realises growth in its business. Therefore, CNOOC Ltd. has always [given] top priorities to the ecology and environmental protection at the location of its operations. CNOOC Ltd. strictly follows environmental protection regulations in host countries, actively implements the Company’s environmental protection policies, draws [upon] experiences from the successes of other international companies in environmental protection and prevents [the] environment from being adversely affected by oil and gas operations” (CNOOC, 2009b: 12).

In addition, Sinopec claims that:

“the survival of the human race depends on the environment. To protect the environment is to protect ourselves. As a responsible energy and petrochemical mega company, we always attach great importance to environmental protection” (Sinopec, 2010: 38).

Furthermore, concerning social issues, Sinopec claims that in its overseas operations:

“we have made a positive contribution to local economic and social development. In the meantime, all of Sinopec’s overseas subsidiaries and branches have launched a series of public welfare activities for the benefits of the local residents, including donations and disaster relief support” (Sinopec, 2010: 57).

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<sup>174</sup> See particularly Section 6.10.1.

Despite these claims, Frynas (2009: 91) states that Western oil firms such as BP do tend to spend more on social and environmental issues than their non-Western counterparts such as the Chinese. Indeed, Chinese oil firms are often singled out for criticism because of their lack of consideration of the social and environmental agenda, together with their aggressive complimentary investment when entering new markets as the new entrants. Although much of this criticism may be due to unjustified fears and/or prejudice, it does reflect genuine concerns that Western oil firms may have to spend more on tackling social and environmental issues whilst Chinese oil firms can aggressively enter the market and free ride by not spending to address social and environmental issues. Professor Child echoes this issue by providing an interesting account that highlights the problem of free riding:

*“I came across this a few years ago, working with somebody on the attitude of chemical multinationals in China and in Taiwan towards environmental protection, and our initial expectation was that they would take account of what was a fairly lax regulatory environment in mainland China. We found that wasn't the case and it wasn't necessarily because their decision makers believed from a moral point of view, if you like, or from an ethical point of view in CSR or in this case environmental responsibility. [One reason was that] these multinationals did not want local Chinese firms to be allowed to come as competitors who need not incur any costs of dealing with effluent, toxic waste, and the like. ... They wanted the local firms to bear the same costs and therefore felt that it was in their interest to do anything that they can to help the Chinese government formulate not only effective rules, but the means to enforce them”* (Child, J., personal interview, 25<sup>th</sup> November, 2010).

Therefore, there is some evidence to support the view that the Chinese do consider environmental issues as a result of Western influences. In fact, as the CORE Coalition anonymous source states:

*“Chinese companies have got a very strong culture and legal framework which is designed to ... protect the environment in a lot of ways, much more than the culture of western companies”* (Anonymous, personal interview, 2<sup>nd</sup> November, 2010).

Consequently, the criticism of Chinese oil firms that they lack a consideration of the environmental agenda may be unjustified, and the concerns of Western oil firms that Chinese oil firms may free ride on environmental issues is perhaps unwarranted. Indeed, Alden and Davies (2006: 95) reflect the opinion of the CORE Coalition anonymous

source, by stating that Chinese oil ‘activities on the African continent are not especially reprehensible or at least no more so than many of their Western counterparts’.

### **9.12: Liability of foreignness.**

Commenting upon how the African people benefit from Chinese investment, Professor Frynas states that:

*“Chinese firms operate in the same business environment as Western firms ... the rules of the game are very similar. The only thing that potentially maybe different is that there is a history of better experiences with some Western companies. [Nevertheless,] Chinese managers, I think ... have the same sort of problems of legitimacy and licence to operate as other firms. You always have liability of foreignness as a multinational firm. So just because you’re Chinese it doesn’t necessarily mean that you’ll have a much nicer ride, maybe at the beginning when people don’t know you, but eventually there is a liability of foreignness”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

This opinion is confirmed by Gill and Reilly (2007: 46), who state that ‘one problem is that Chinese firms, new to Africa, are rarely familiar with local customs, laws, or institutions’. Nevertheless, Doctor Gbadamosi comments upon whether a Western firm might have more experience in addressing macro-level socio-economic needs in comparison with a Chinese firm by saying:

*“I think they have a lot more experience in doing it. Plus, given the background of the West and the development that is on the ground here which has evolved over the years, they know what’s the best sort of thing to put in a school. How to minimise cost in schools, the best equipment to put in hospitals, how to minimise costs in hospitals. All of these have evolved over the years, ... and I don’t think the Chinese can claim as much expertise in all of this”* (Gbadamosi, G., personal interview, 30<sup>th</sup> September, 2010).

Therefore, the West can reduce their liability of foreignness in comparison with Chinese firms because of their greater experience of knowing what kind of development is necessary, such as, ‘the best sort of thing to put in a school’.

### **9.13: The Western response to Chinese involvement.**

As Professor Frynas states:

*“Sometimes in business there is a problem of a new entrant. Any new entrants may change ... the rules of the game [which] makes it harder to compete for the same concessions”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Commenting, in that case, upon whether Western firms can continue to compete, Professor Frynas states that:

*“it’s up to them to up the game. I mean ... on the social and environmental front ... you may have to try and actually get recognition for being a good corporate citizen and being selected on phases where you provide the highest social and environmental standards”* (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).

Therefore, distinguishing yourself as a good corporate citizen in order to gain that all important social license to operate is an important strategic move to compete with a new entrant in an institutional regime such as China. Confirming this, Frederick *et al* (1988: 335) sum up the advantages of a good business-society relationship by saying that ‘when a business has a good relationship with its community, it makes all the difference in the quality of that community’s life and in the successful operation of the business’. Furthermore, Carroll (1993: 32) suggested that business’s philanthropic activities are part of ‘being a good corporate citizen’. This means therefore, that if a firm is to be seen as a good corporate citizen, then it should embrace CSR and make it an integral part of the way it is run. Hence, for many corporations, CSR should no longer being seen as a purely discretionary issue. Rather, it should be given increasing attention on many boardroom agendas, and as we saw in Section 8.9, Western oil MNCs have engaged in strategic CSR to secure licences to operate. That is, some contribute to government favoured social funds to help secure formal licences to operate from host country governments, whilst another form of strategic CSR involves distinguishing yourself as a good corporate citizen to gain social licenses to operate by gaining the support of local communities. The case of Royal Dutch Shell in the Niger Delta reminds us that unless local communities are given due consideration, an oil MNC may be forced to cease operations in a locality.<sup>175</sup> In the light of the fact that the Chinese, with their government to government summit diplomacy and complimentary investment, have major contractual advantages, distinguishing yourself in this way is how Western oil firms can compete with China. As Professor Frynas continues:

*“This is potentially a way forward to distinguish yourself and, certainly in the light of BP in the Gulf of Mexico, in the future there may be certain demands to have companies that distinguish themselves by being*

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<sup>175</sup> Refer back to Box 4.2.

*the best performers in the social and environmental agenda” (Frynas, J.G., personal interview, 20<sup>th</sup> December, 2010).*

Nevertheless, as Jonathan Samuel of Anglo American states:

*“it is worth noting that while Chinese companies have become competitors for ... assets they are only some of many. If you look at recent deals in [the mining] sector the best deals and new projects still tend to be done by Western companies. And China is, of course, a major driver of demand and profits for the mining sector, so if we have lost out on any projects to Chinese competition (and I'm not sure we have) it is more than compensated for by Chinese custom” (Samuel, J., email interview, 26<sup>th</sup> February, 2011).*

Therefore, even if a Western firm cannot distinguish itself as a good corporate citizen, which could be the way forward to compete with Chinese involvement, any loss of business may be compensated for by engaging directly in the Chinese market. Indeed, BP notes that the International Energy Agency:

*“estimates that world energy demand could be 45% higher by 2030, half of it coming from China and India” (BP, 2008a: 12).*

#### **9.14: Discussion.**

CSR is generally a Western concept, and this raises the question as to whether it represents a set of principles that the new entrants from China should also adopt. However, the Chinese face the same ethical dilemmas as Western firms when they engage in outward FDI, as indeed CNOOC themselves acknowledge. Furthermore, the West’s negative perceptions on what China is doing in Africa, according to the CORE Coalition anonymous source and Professor Child are largely misplaced. In addition, the Chinese can present themselves as another developing nation, and this raises the question whether China can be viewed as a development partner for Africa?

The evidence suggests that China is engaged in a resource grab in Africa for now, although this may pave the way for China becoming a development partner in the future. However, would Chinese investment be preferred by Africans? The Chinese way of dealing government to government is preferable to African governments today, particularly because Chinese investment comes with ‘no conditions attached’ concerning governance and transparency, unlike Western investment.<sup>176</sup> As Frynas (2009: 140, 142) points out, whilst BP, along with fifteen other firms in the extractive

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<sup>176</sup> Aim 5 in Section 1.1.

industry sector including the other three oil ‘majors’ (Chevron, ExxonMobil, and Royal Dutch Shell), supports the EITI, Chinese oil firms in comparison are not so enthusiastic; and indeed, it is known that CNOOC and Sinopec are not formal supporters of the EITI.

The Chinese also engage in the exchanging of gifts to get support from local communities. However, if this is being extended to giving large amounts of money to various parties, the locals can recognise that this is not ethical which would become more apparent as Africa becomes more open and accountable. Nevertheless, Doctor Gbadamosi believes that the Chinese are receiving inside information from local communities concerning what local content improvements are required, meaning that Chinese investment would be well received in comparison with Western investment.

The Chinese ‘national champion’ oil SOEs are entering the market whilst enjoying preferential treatment from the Chinese state. However, increased management autonomy today is avoiding the problems of direct government interference in the running of firms suffered in the earlier adoption of the corporate form. Nevertheless, the role of the Chinese state in securing licences to operate is key and represents an O advantage that a Chinese oil SOE enjoys. This contractual advantage comes in the form of complimentary investment from the Chinese state. Complimentary investment, in the form of loans, provides Angola with another source of borrowing so that the country does not have to rely upon Western sourced loans, such as those from the IMF, that have conditions attached, some of which relate to concerning governance and transparency. This will affect the attempts of a Western firm to influence the institutional environment by promoting transparency and in turn sounder governance practices, and could lead to a failure of any initiative to engage in institutional co-evolution. In addition, the Chinese do not follow a policy of providing aid. Instead, the Chinese construct infrastructure projects and there is a long history of engaging in such infrastructure improvements. As the example of Angola<sup>177</sup> and Doctor Gbadamosi’s comments highlight, improving transportation infrastructure is a vital developmental issue for Africa. The Chinese are engaging in improvements in Africa’s transportation infrastructure which is a key social problem that many African countries have. Therefore, the Chinese are addressing socio-economic needs at the macro-level in this

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<sup>177</sup> See section 7.6.

way. However, the example of the TanZam railway provides a note of caution because without the required local job creation and training, there is a danger that the maintenance of infrastructure projects will suffer.

Indeed, the major contested issue, in the context of what the Chinese firms report that they do, is to do with local employment and training. Both CNOOC and Sinopec claim that they have significant employee localisation and training policies that reflect those undertaken by Western firms, and their reporting emphasises the success of these policies. However, the evidence suggests that their reported success is far from the case. Professor Child, Professor Frynas, and Doctor Gbadamosi all provide evidence that refute these claims; and their evidence is persuasive when one considers that the Chinese have an O disadvantage where their firms operate within an insider system, which means that Chinese firms when they invest abroad would not be inclined to new hiring of locals. In comparison, Western firms employ significant numbers of locals, as BP's Angolanisation programme proves, containing the goal of adhering to targets set by the Angolan government at the institutional environment level for the recruitment, integration and training of Angolan nationals. Not enraging host country officials is a lesson that was learnt by BP in Iran, and Anglo American has been investing in educational projects for many years in the African setting, illustrating that the provision of educational opportunities is a highly applicable tool to promote development; and Western firms, using BP as the example, have perhaps learnt this from experience, which in comparison is a lesson that the Chinese are not in a position to learn from because of their relative inexperience.

Another way that the relative greater experience that Western oil firms have (resulting in an advantage over the Chinese) is that they have knowledge of how to be cost effective, and they have knowledge of what is the most appropriate expenditure when they invest in local schools and hospitals. This knowledge has been procured over time and the Chinese cannot claim as much expertise. Therefore, the West can reduce their liability of foreignness in comparison with Chinese firms.

A further issue surrounding Chinese investment in Africa involves the fact that Western oil firms may have to spend more on tackling social and environmental issues whilst Chinese oil firms can enter the market and free ride on the benefits. As was seen in the last chapter, despite the fact that Doctor Gbadamosi stated that businesses have a

responsibility to contribute to local communities and they learn how to do this over time, the CORE Coalition anonymous source stated that BP does not deal with environmental and social abuse effectively because it has not learnt from their experience, suggesting that the new entrants, China, would not be in an inferior position in comparison with BP when it comes to embracing sustainability issues. Indeed, as a result of Western influences the Chinese do consider environmental issues, and consequently, the criticism of Chinese oil firms that they lack a consideration of the environmental agenda is unjustified. In addition, the concerns of Western oil firms that Chinese oil SOEs may free ride on environmental issues appears to be hypocritical when, as we saw in the previous chapter, one considers the social consequences of environmental degradation resulting from oil spillage and flaring gas that Western oil firms do not address. This is especially important since, as Professor Frynas states, an important strategic move to compete with a new entrant such as China is to distinguish yourself as a good corporate citizen.<sup>178</sup> If a Western firm does this, it may be able to engage in institutional co-evolution more effectively.

However, one should not dismiss China as an agent for change. Officials of the Chinese government are increasingly becoming aware of the risk of operating in the African environment, such as corrupt practices. For example, as Alden (2007: 114) reports, the Chinese government discovered that a significant proportion of their funding to the Angolan government was ‘being siphoned off’. This forced dos Santos to remove the senior MPLA official who was in charge of managing Chinese funding and to establish an office under General Kopelipa, the military advisor to dos Santos, to oversee Chinese funding.

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<sup>178</sup> Aim 6 in Section 1.1.

# Part 4.

## **Chapter 10: Conclusion.**

### **10.1: The findings and the implications of the study.**

As stated in Section 1.1, this thesis has attempted to assess:

1. whether a major international oil corporation (BP) has learnt how to embrace the CSR agenda from long-term experience of engaging in operations in developing countries,
2. what CSR principles are applicable to the African setting,
3. de jure convergence to the Anglo-Saxon model of corporate governance (China) versus actual adherence to a version of the Anglo-Saxon model of corporate governance (the UK),
4. whether major international oil corporations can positively influence the institutional environment in the host countries where they operate,
5. whether China's attempts to engage in resource-seeking foreign direct investment (FDI) is more likely to be successful in gaining licences to operate than the attempts of the West to engage in resource-seeking FDI,
6. how or if Chinese resource-seeking FDI is influencing the way that the West transfers CSR principles,
7. whether CSR is used merely as a strategic tool in order to receive licences to operate.

Therefore, the findings of this study will now be presented to show where this aims were met, together with answering the research question.<sup>179</sup> Chapter 5 showed that BP has been concerned with board composition issues throughout its history. However, what has evolved is a board that can be regarded as an effective governance mechanism to embrace the concerns of multiple stakeholders. This chapter also showed that BP learnt from experience that macro-level socio-economic needs have to be addressed (Aim 1), embracing the CSR agenda on an ad-hoc basis throughout its history and long before it actually came into being. Nevertheless, as the CSR agenda evolved into the reporting phase, BP adopted a professionalised approach to CSR by setting targets, measuring impacts, and stating commitments. Initiatives from the global institutional environment to influence firm behaviour at the micro-level acquires significance here,

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<sup>179</sup> As stated in Section 1.1, but restated in this section too.

particularly because firms adhering to the GRI guidelines generally coincides with embracing the concept of sustainable development. Embracing developed world notions of sustainability has focused corporate responsibility on the climate change agenda, which is inapplicable to the African setting where local environmental issues are more appropriate (Aim 2).

Chapter 5 also made a study of Anglo American and highlighted the importance of considering social issues that the company learnt from their extensive experience of the African setting. In addition, it revealed that education is a highly applicable social project to invest in throughout Africa (Aim 2). This provided a useful comparison with BP as it highlighted that macro-level socio-economic needs should continue to be addressed rather than a focus upon the developed world notion of environmentalism that has evolved by fully embracing the sustainability agenda.

Chapter 6 found that China's earlier adoption of the corporate form, just like its adoption today, is driven by a sense of competition with the West, and whilst the evolution of the SOEs in China has been a process to a model that resembles the Western corporate model, for the foreseeable future continued state control remains desirable. This is because the Chinese feel that high social costs, such as a loss of employment, would result from the departure of state ownership of firms. Nevertheless, embracing Western techniques, especially management technology, and adapting them made China's earlier corporations competitive, and is making today's Chinese SOEs competitive. More importantly, China's earlier adoption of the corporate form involved embracing Western ideas and adapting them to China's own needs. The Western notion of sustainable development has been embraced today by both CNOOC and Sinopec as they have adopted the CSR agenda, but it has been adapted to their own specific needs in that they have interpreted the concept as meaning the sustainability of the companies, their continued existence. This represents a recreation of what China did during the earlier adoption of the corporate form: adapting Western ideas to the Chinese business environment.

Chapter 6 also discovered that large Chinese SOEs have been corporatised and significant management autonomy has evolved, but the Chinese government continues to be the major shareholder, and the lack of a social safety net is an important reason why SOEs continue to play a key role in China. In addition, one of the key factors in

China's corporate governance is the insider control of corporate affairs (rather than the outsider control in the Anglo-Saxon model of corporate governance, Aim 3) to pursue 'higher national goals' such as providing employment. All of this has significant implications when China's 'national champion' SOEs invest overseas.

Chapter 7, by focusing upon Angola to highlight the development issues that are relevant to African oil-producing countries, found that education and/or training is important to fill a skills gap that needs to be addressed to enable locals to engage in meaningful employment with the oil sector, and there is an inadequate institutional capacity to manage the legal regime. Moreover, there is a lack of transparency surrounding oil revenues. In addition, local communities should be able to sustain their livelihoods, and significant infrastructure development is required. Importantly, however, the development of good quality institutions can be promoted by oil MNCs enhancing transparency.

The working definition of CSR for the purpose of this thesis was identified as:

*'The voluntary requirement for business to behave ethically, and to address negative externalities so that local communities can sustain their livelihoods, in order to contribute to economic development'.*

To summarise the findings in Chapter 8 and Chapter 9, it will be considered whether BP and/or China promotes economic development in the six ways identified,<sup>180</sup> which provides the subjective element of the research question, whilst analysing the Angolan case performed the objective function by identifying the problem. To do this, the above definition will be used as a guideline.

As discussed in Chapter 4, an interesting paradox in development economics is the resource curse, which is the poor growth performance of many countries with rich natural resources. This is because, as Zafar (2007: 107, 115) states, 'both theoretical analysis and empirical evidence show that capital-intensive natural resource abundance creates opportunities for rent-seeking behaviour and ... this is an important factor in determining a country's level of corruption'. As Zafar further stresses, in order to discourage rent-seeking behaviour, a prime contributor to the resource curse, the institutional capacity needs to be established so that there can be a transparent accounting of oil revenue windfalls. For promoting revenue transparency, an intentional

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<sup>180</sup> See section 7.7.

transfer of their CSR principles,<sup>181</sup> BP operating at the micro-level could have set in motion a sequence of events (by voluntarily deciding to behave ethically by publishing their accounts in 2001) that could have promoted revenue transparency to address governance shortcomings in Angola's institutional environment (Aim 4) and promote Angola's economic development. The failure of BP's unilateral move in Angola influenced the launching of the EITI. Subsequently, Angola considered signing up to the EITI to improve governance and transparency in order to meet the conditions of securing an IMF loan. However, the new entrants, China, have stepped in and provided another source of borrowing that means that Angola now does not have to rely on IMF loans. Consequently, this new source of borrowing, with 'no conditions attached', has removed the incentives for Angola to sign up to the EITI to improve governance and transparency.

Moreover, China has entered the market and have changed the entire co-evolutionary dynamic. This thesis has focused upon BP transferring their CSR principles and behaving as an agent for change at the micro-level to the entire institutional regime, including addressing macro-level socio-economic needs and governance shortcomings within the institutional environment level.<sup>182</sup> The new entrants at the macro-level, the Chinese firms, have entered the market primarily concerned with their continued existence as firms and to secure the energy security of China. Therefore, the Chinese are not acting as change agents and are not even attempting to behave in this way. Instead, they are only concerned with securing licenses to operate and the Chinese state is playing a key role in this by providing complimentary investment such as soft loans via government to government interaction (including high-level summit diplomacy as we saw in Section 9.3) within the institutional environment, and building infrastructure such as schools, hospitals, and transportation improvements. Consequently, the Chinese are not attempting to change the institutional set-ups and instead they are prepared to work with them. In this sense, the Chinese are engaging in institutional avoidance<sup>183</sup> where they are willing to accept a

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<sup>181</sup> See Section 2.3.

<sup>182</sup> In fact, BP themselves state that business has always been an important agent of change (See Section 8.1).

<sup>183</sup> See Section 1.3.

weak institutional environment, and furthermore, they are engaging in institutional adaptation<sup>184</sup> by engaging in corrupt practices<sup>185</sup> and behaving in such a way (by providing relevant soft loans) that is relevant to the host country context. By comparison, BP is attempting to engage in institutional co-evolution by behaving in such a way as to attempt to improve the host country institutional environment by, for example, promoting transparent accounting. As a result, a country like Angola now can rely on China as an inward investor, one that is not concerned with attaching conditions to any investments, like the West would do, regarding institutional environment level governance (Aim 5).

Therefore, to address the research question: whether the competition for Africa's natural resources between Chinese firms (as the new entrants into the market) and Western firms (focusing upon BP) has negative implications for the governance climate in the region, China entering the market as a new competitor for Western oil firms has had a negative impact upon the governance climate in Angola. However, regarding the EITI, unlike Angola many other African oil-producing countries have signed up to this initiative, including Equatorial Guinea and Nigeria. In this respect, the Chinese entering the market has not had a negative impact upon the governance climate in Africa as a whole. Nevertheless, in stating this, one must acknowledge that the EITI is unlikely to be effective because it does not focus upon the government spending of revenues.<sup>186</sup>

For developing a strong civil society, oil corporations can contribute by planning, delivering, and monitoring social investments. The evidence suggests that BP and other Western firms have certainly delivered social investments. Oil corporations can contribute to increasing employment opportunities for locals in Angola by training and educating locals to enable them to engage in employment in oil sector operations. BP implements the Angolanisation programme and consequently, the company makes a positive contribution. However, in comparison, the Chinese frequently bring in their own labour when they invest in a foreign country due to the fact that their SOEs pursue

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<sup>184</sup> Also see Section 1.3.

<sup>185</sup> See Section 9.7.

<sup>186</sup> In fact, an oil export boom in Africa that stems from increased Chinese demand will lead to a sense of complacency that would prevent African countries undertaking the measures necessary to make economic development sustainable, such as investment in human capital and institutional reform (Deutsche Bank Research, 2006: 12).

the ‘higher national goal’ of maintaining employment levels and they compensate for the lack of a social safety net in China. Furthermore, they provide no education and training for locals.

Nevertheless, the Chinese invest heavily in improving Africa’s infrastructure, especially the transportation infrastructure, and therefore, the interviewee evidence and the literature study suggests that Africans certainly benefit from Chinese involvement in this way. This represents an unintentional transfer of social responsibility<sup>187</sup> because this can be regarded as unforeseen societal benefits. The intention of these infrastructure improvements is to seal licences to operate rather than to directly benefit society. However, the example of the TanZam railway, which has suffered from depreciated capital stock and a lack of trained staff, highlights that since the Chinese are not educating and/or training locals, a skills gap emerges which means that the infrastructure improvements may not be maintained.

Western oil MNCs contribute to social investment funds which can help to support livelihoods. However, this contribution is cancelled out by the social consequences of environmental degradation resulting from oil spillage and flaring gas. The negative externality of pollution from oil sector operations means that local communities cannot sustain their livelihoods, a lesson that has arguably not been learnt from history. As Kreike (2004: 7-8) stressed, this issue has not been touched upon in previous research on Africa, and it sums up the viewpoint of the CORE Coalition anonymous source that BP has not learnt from their history in the context of addressing social and environmental issues effectively. This lack of learning from operational history has been reinforced by the fact that firms like BP have fully embraced the concept of sustainable development which does not address local environmental issues in the developing world.

Therefore, one implication of this study is that these firms, despite the fact that today they set targets and measure their performance, should engage in more effective impact assessments of the environmental and social consequences of their local operations. If effective impact assessments were engaged in, this important issue that this thesis has raised may be addressed. BP has decided to tackle the climate change agenda to answer an audience in developed countries, but it is everyday pollution from

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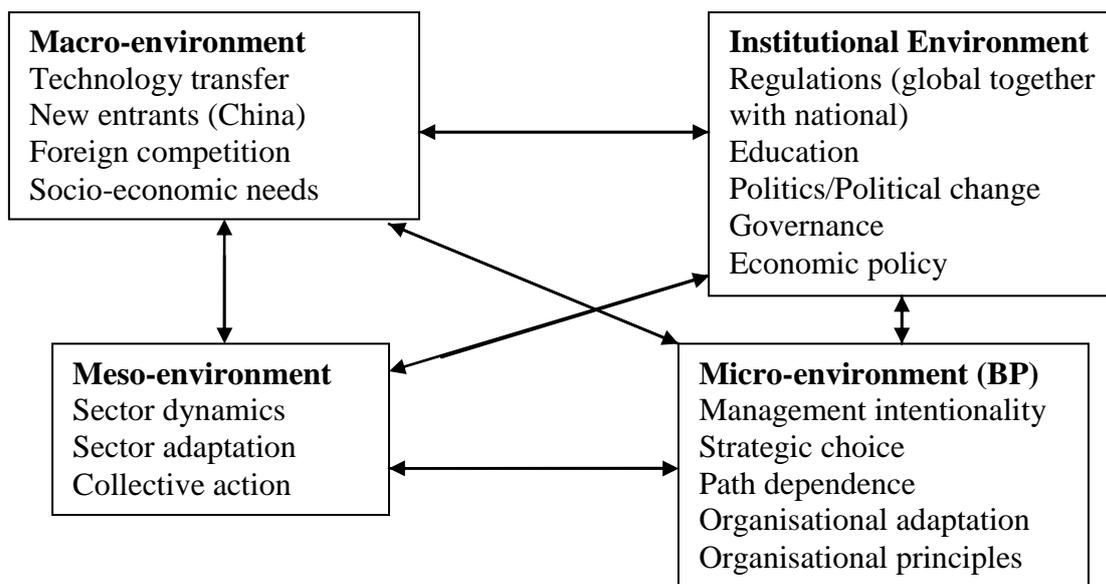
<sup>187</sup> See section 2.3.

oil sector operations that is appropriate to the African setting and the rest of the developing world, and this is not being considered. This raises the other implication of this study because what is not helping this situation, the localised impact of firm operations, is that initiatives from the global institutional environment to influence firm behaviour at the micro-level attempt to mean something to all stakeholders, with the result that they can be too voluminous for firms to implement, and more importantly, they are too focused upon developed world notions of environmentalism, just like the concept of sustainable development that underpins these initiatives. A more focused global initiative that is relevant to the developing world setting is called for, one that embraces development issues and local environmental and related social consequences. Such an initiative should be designed along the lines of the original Sullivan Principles, which was relatively effective in achieving more narrow and well-defined objectives.

Furthermore, such a focused global initiative should be designed so that Western oil MNCs can distinguish themselves as good corporate citizens. We have seen that there is some evidence of firms transferring their CSR principles strategically (Aim 7), and this is not only an important strategic response for Western firms to compete with a new entrant such as China (Aim 6), but the mere fact that firms transfer their CSR principles strategically does not necessarily help this issue of developing world local environmental problems. If strategic CSR that focused upon securing a social licence to operate was more orientated upon local environmental issues rather than solely on winning the support of local communities via social projects and/or funds, then perhaps the social consequences of environmental degradation would be addressed.

### **10.2: The applicability of co-evolutionary insights.**

This thesis used the co-evolutionary theoretical framework in an original way, as it has rarely been applied to corporate governance and CSR, and certainly not in the context of an oil sector firm attempting to engage in institutional co-evolution in the specific location of Angola. Although Cantwell *et al* (2010) did propose such a framework, this thesis actually applied it. Nevertheless, since co-evolutionary insights have rarely been applied to corporate governance and CSR, this raises a question regarding how applicable co-evolutionary insights have been in this study. The use of co-evolutionary theory informed the way that the evidence was looked at, and although every single facet of co-evolutionary theory was not deemed relevant to every single issue under



**Figure 10.1: The Institutional Regime: BP as Active Change Agent (NB. The concepts and terms were also utilised in the study of Anglo American).**

consideration, certain co-evolutionary insights were deemed applicable to differing phenomena. It will now be shown how certain facets of co-evolutionary theory were utilised, with reference to Figure 10.1.

Considering the institutional regime that BP was attempting to act as the agent for change in, co-evolutionary theory stresses the importance of considering *new entrants* in the market. Consequently, due attention was given to the most significant of these, China. Therefore, Chapter 6 employed co-evolutionary *path dependent* analysis (embraced within the micro-environment) to discover whether sequences of events throughout history have shaped Chinese firm behaviour today, and found that the way that today's Chinese SOEs embrace Western ideas is a recreation of what the earlier Chinese corporations did prior to the founding of the People's Republic. In addition, it considered *technology transfer* (managerial technology) from the macro-environment to the micro-environment, together with *foreign competition* at the macro-environment instigating change in the micro-environment. Furthermore, this chapter stressed that the two Chinese oil firms engaging in operations in Angola must be viewed in the context of the overall energy policy (*economic policy*) of China.

Chapter 6 also employed action determinism within co-evolutionary *strategic choice* analysis in the micro-environment, and showed that continuing state-firm relations in China is a built-in preference. Chapter 5 also showed that BP's built-in preferences meant that for a long time the board was dominated by members who would consider the narrow definition of organisational performance, i.e. financial performance. In addition, this technique showed that in contrast to BP, Anglo has been controlled by a powerful tightly knit elite group, which also represents a built-in preference.

Furthermore, Chapter 5 showed that as BP is now subject to the Combined Code from the UK's institutional environment, the board has over three outside directors who may be more knowledgeable about stakeholder issues. The primary advantage to adopting the co-evolutionary framework regarding this chapter however, is the study of the initiatives (*regulation*, even if only soft laws) from the global institutional environment level and how these impact firm behaviour in the micro-environment. This gave valuable insights to how BP would act when attention turned to analysing their implementation in Part 3. Similarly, studying how these initiatives influence the way the Chinese behave in Chapter 6 revealed profound implications that could then be explored in Chapter 9, including their pursuance of 'higher national goals' such as employment which may be regarded as built-in preferences (the institutional environment's *politics* influencing the micro-environment). Importantly, both Chapter 5 and Chapter 6 stressed the importance of addressing *socio-economic needs* in the macro-environment, and how micro-environment action can change the institutional environment's *education*.

In highlighting the problem facing African oil states, using Angola as the case, Chapter 7 showed that the promotion of economic development can be achieved by addressing the issue of macro-environment *socio-economic needs* that the previous two chapters raised, and transferring micro-environment *organisational principles* to promote transparency, for example, can promote the development of good quality institutions for sound *governance* at the institutional environment level. Subsequently, Chapter 8 showed that BP's greater transparency (*management intentionality*) was a micro-environment level attempt to transfer an *organisational principle*, and also considered improving *socio-economic needs*. Chapter 9 then considered the impact of the *new entrants*, and found that although Chinese involvement affects the ability to engage in institutional co-evolution when it comes to promoting transparency, the

Chinese are addressing *socio-economic needs* in the macro-environment, and are engaging in government to government interaction within the institutional environment level via summit diplomacy, highlighting the important role the Chinese state plays in securing licences to operate. All of this has enabled insightful conclusions to be reached in this chapter, particularly how Chinese involvement has changed the whole co-evolutionary dynamic.

### **10.3: Limitations of the study.**

The following factors represent possible limitations of the study:

- It was seen in Section 3.4 that the Chinese firms provide little concrete data on their consideration of social and environmental issues. This meant that Chapter 9 could not have the same balanced analysis as Chapter 8 did by fully analysing company reports and interviewee evidence. Nevertheless, some bold claims made by CNOOC and Sinopec could be assessed in relation to interviewee evidence.
- Chapter 5 studied the ad-hoc responses that BP made to social issues throughout their history as and when these were raised as part of the first generation of the CSR agenda, prior to adopting a professionalised approach to CSR. However, this discussion is incomplete because it drew upon three volumes of BP's company history which only brought the story up to the 1970s. A fourth volume which may have brought this story up to when BP began reporting their impacts was withdrawn from publication and no other literature is available to cover this period.
- Despite mentioning impacts in other countries such as Nigeria, the thesis was arguably too focused upon the situation in Angola. This raises the question as to how much the findings of this thesis can be generalised beyond the case.

### **10.4: The need for future research.**

The consideration of China as the new entrants highlighted a significant factor that impacts upon firm activity, which in the context of this thesis was the ability for a firm to engage in institutional co-evolution. Therefore, a consideration of other emerging economic powers in the global market would enhance this, to discover whether firms from these countries behave in the same way China does when they

invest overseas: government to government inaction, corrupt practices, for example. This could be embraced by researching the other so-called BRIC<sup>188</sup> economies. Chousa *et al* (2008: 1) were concerned with investigating the decline in environmental quality within these BRIC economies themselves, due to high energy consumption levels as a result of rapid economic growth. This could be extended to beyond the countries themselves, to considering whether they have impacts when their firms engage in outward FDI.

BP's influence, acting as change agent at the micro-level, upon the wider institutional regime is what this thesis focused upon. Although the impact of China as the new entrants at the macro-level was studied, together with BP's influence upon the institutional environment level; meso-level influences and/or inactions were not fully taken into account because, as Lewin and Volberda (2003) stated, satisfying all of the requirements of co-evolutionary research is a daunting prospect.<sup>189</sup> However, collective action problems associated with the issues of revenue transparency and environmental degradation could be considered within the context of micro/meso-level interaction, which would embrace sector dynamics and adaptation.<sup>190</sup> Consequently, a future study that focuses upon meso-level influences and/or micro/meso-level interaction regarding these issues, by considering whether a number of firms could act collectively, would engineer a deep understanding of these phenomena. Indeed, embracing meso-level dynamics by studying a number of firms in the sector was the original intention of the research, but upon the advice of an external expert the thesis became focused upon BP.

This thesis has highlighted the importance of the local social consequences of environmental degradation resulting from firm activity, and this is an issue that should be explored in some depth in future work to understand the processes involved, and qualitative accounts from the local community members that are affected by the environmental degradation and/or relevant experts in the field would engineer a deep understanding of the problem. This could also be conducted by considering the situation in a variety of developing world countries to in an attempt to solve the issue of generalising beyond the case.

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<sup>188</sup> BRIC refers to the emerging markets of Brazil, Russia, India, and China (Chousa *et al*, 2008: 2).

<sup>189</sup> See Section 2.4.

<sup>190</sup> See Figure 10.1.

# **Appendix 1.**

## THE UNITED NATIONS GLOBAL COMPACT

Officially launched at the UN's New York headquarters on 26 July, 2000, the Global Compact is an initiative that has the objective of encouraging businesses globally to adopt policies for sustainable and responsible behaviour, using a common framework to report on them. It is not a regulatory instrument. Rather, it is a forum for discourse and networking between governments, firms, and labour (whose activities it attempts to influence); and NGOs and civil society (its stakeholders). Once firms sign up to the Global Compact, it does not mean that they are recognised as having fulfilled its principles. The core values and principles that the Global Compact asks firms to embrace, support and enact, within their sphere of influence, are:

### Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

### Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The Global Compact provides a useful tool for analysis as it sets standards for socially responsible behaviour for firms globally. In addition, it is an important tool when comparing different firm activities together with setting the agenda for what should be regarded as socially responsible (Aras and Crowther, 2009: 16-18).

## **Appendix 2.**

### LEGISLATION

Since the beginning of this century a number of attempts have been made to introduce into the laws of Anglo-Saxon countries a basic requirement for firms to exercise CSR in their operations at home and overseas. In the UK earlier this century, for example, NGOs and other stakeholder groups that make up the CORE Coalition lobbied to enshrine stakeholder consideration and protection in UK corporate law, which resulted in the CORE Parliamentary Bill. Under the CORE Bill, applicable CSR standards were aligned with already operational national and international legislation prevailing in the various countries of operation where British firms were engaged in activities, and the Bill stipulated that:

‘A company shall carry out its activities in accordance with administrative practices and laws of the countries in which it operates, as well as international agreements, responsibilities and standards, including but not limited to, those relating to:-

- (a) the preservation of the environment,
- (b) public health and safety,
- (c) the goal of sustainable development,
- (d) employment,
- (e) human rights, and
- (f) consumer protection’.

The CORE Bill made a particular focus upon the social and environmental duties of company directors, stipulating that:

‘A director of a company shall, when considering any matter or taking any decisions, act in the way which in his opinion would be most likely to promote the success of the company, but in so doing it shall be the duty of the directors of any company-

- (a) to consider-
  - (i) the environmental, social and economic impacts of their operations and any proposed operations, and
  - (ii) the interests of all their stakeholders when making any decision in respect of those operations or proposed operations,

- (b) to take all reasonable steps to minimise any negative environmental, social and economic impacts of any such operations or proposed operation, and
- (c) to prepare an annual report which identifies any risks to the company as a result of the company's environmental, social and economic impacts and how any such risks would be managed'.

Following on from this, further lobbying by the CORE Coalition, together with the Trade Justice Movement, pushed for a more radical formulation of directors' duties in the UK Companies Act 2006. This formulation called for directors 'to take reasonable steps to minimise any significant adverse impacts on workers, local communities and the environment' (Horrigan, 2010: 213-216).

## **Appendix 3.**

### THE ORIGINS OF BP

BP originated in the activities of the adventurer William Knox D'Arcy, who had made a fortune in Australian mining. D'Arcy, in 1901, secured a concession from the Grand Vizier of Persia to explore for petroleum. This exploration proved to be extremely costly and difficult, because Persia lacked the necessary infrastructure and was politically unstable. In need of capital, D'Arcy was joined by the Burmah Oil Company in a Concessionary Oil Syndicate in 1905, who supplied funds in return for operational control. In May 1908 oil was discovered at Masjid-i-Suleiman in the southwest of Persia, and this was the first oil discovery in the Middle East. As a result, in April 1909, with the Burmah Oil Company having a majority of the shares, the Anglo-Persian Oil Company was formed. Subsequently, the British government invested £2 million in Anglo-Persian and received the majority shareholding in return. The British government would retain this majority shareholding for many years, until October 1987 when the then Prime Minister, Margaret Thatcher, sold the British government's remaining shares as part of a wide-ranging privatisation programme.

In the early years of the company, the major figure was Charles Greenway, after having been invited by Burmah Oil to assist in forming Anglo-Persian as founding director. Greenway became managing director in 1910, and became chairman in 1914. Greenway's successor was John Cadman. In 1923 he became Anglo-Persian's managing director, and chairman in 1927. Cadman had been a major figure in official British oil policy during World War I, and introduced major administrative reforms, overcoming the excessive departmentalism and lack of coordination that had formerly characterised Anglo-Persian (Jones and Wolf, 2002: 46-47). Standard Oil of New Jersey, which later became Exxon in 1972, and Exxon Mobil after Exxon merged with Mobil in 1999 (Martin, 2005: 177), joined forces with Cadman and Royal Dutch-Shell in 1928 to reach a wide-ranging international agreement on the establishment of a clearing house, which had the fundamental objective of bringing surplus productive capacity into balance with demand by controlling competition (Bamberg, 1994: 107, 109), establishing the principle that the world's largest oil companies could collude together.

Anglo-Persian was renamed Anglo-Iranian in 1935 when Persia became Iran,

and subsequently, Anglo-Iranian was rebranded as the British Petroleum Company in 1954. Later, BP Amoco plc was formed in 1998 by the merger of the British Petroleum Company and Amoco Corporation. However, in 2000, the Amoco name was dropped and the corporation is now known as BP plc, and it is now the third largest oil company in the world. The previous BP and Amoco logos were replaced by a new BP logo, which is a green and yellow sunburst. Oil industry analysts have speculated that the new logo has been adopted with the intention that people will perceive BP not as an oil company, but as an energy company, with operations in oil, natural gas, and solar power (Jones and Wolf, 2002: 47-49, 55).

BP is today one of the most powerful corporations in the world. It is a genuine global enterprise with approximately 104,000 employees, of which just 17,500 are located in the UK, compared to 39,000 in the USA, (Maclean *et al*, 2006: 207) despite being a UK-based firm. Compared to other major corporations, BP ranks highly in the index of multinationality, which is defined as the average of the percentage of global assets, sales, and employment accounted for by overseas affiliates. This figure rose for BP from 66.3% to 75.8% of its operations being overseas between 1985 and 1996 alone (Dunning, 2001: 240-241).

## **Appendix 4.**

### THE ORIGINS OF ANGLO AMERICAN

Anglo American's history can be traced back to 1902, when Sir Ernest Oppenheimer arrived in Kimberley, South Africa representing diamond merchants A. Dunkelsbuhler and Co., who were members of the Diamond Syndicate. The Diamond Syndicate was a cartel that maintained prices for South African diamonds by regulating production. Oppenheimer also became interested in gold mining, and in 1905 he acquired Consolidated Mines Selection, originally formed in 1887, with properties on the East Rand gold field. By 1916, when the true value of the East Rand was realised (Katzenellenbogen, 2003: 30), the formation of Anglo American was initiated as part of the strategy worked out by Oppenheimer to gain access to US capital markets so that he could proceed with developing the East Rand (Innes, 1984: 91), and subsequently, the Anglo American Corporation of South Africa Ltd. was founded by Oppenheimer in 1917. The company name derives from the fact that it was founded with British financial backing and in addition, and for the first time for a South African concern, with significant American financial backing.

At this time all major mining finance houses were registered in London. However, Oppenheimer was attempting to build up a major South African mining house in order to compete in the gold sector (Reichardt, 2007a: 43). A number of political reasons have been put forward to explain the reason for locating in South Africa rather than in London, since Oppenheimer was a naturalised British subject. However, the primary reason was to avoid the possibility of double taxation problems (Katzenellenbogen, 2003: 30-31). Over the years, the Anglo American Corporation increased its mining interests in the Southern African region by becoming the largest shareholder in De Beers, developing the Zambian Copperbelt, and exploiting platinum group reserves in South Africa. The Anglo American Corporation also diversified into chemicals, construction, newspapers, and financial services. The Anglo American Corporation originally had its primary listing in Johannesburg (Jones *et al*, 2007: 227). However, in May 1999 the Anglo American Corporation of South Africa Ltd. merged with Minorco to form a new Anglo American (Maclean *et al*, 2006: 200), and this new Anglo American with its primary listing in London became a UK-based firm.

Significant corporate restructuring followed, including the disposal of non-

core assets such as financial services and the acquisition of new businesses including the UK's Tarmac, Shell's coal operations in Australia and Venezuela, Chile's copper producer Disputada, and Russia's Skytyvkar forestry enterprise. By October 2005, the new Anglo American announced its intention to rationalise its assets further so that it can focus more on its core mining business. Therefore, Anglo American has transformed itself from a South African-based diversified firm with business interests concentrated in the Southern African region into a UK-based global mining giant with operations in over 50 countries around the world (Jones *et al*, 2007: 227-228).

Today, Anglo American PLC is believed to be the world's largest gold mining organisation. Through a 45% share in De Beers, it also has a major interest in the distribution of 80% of the world's rough diamonds. Since its early beginnings in South Africa, it has become a unique multinational group, headquartered in London. Despite being based in the UK, Anglo American dominates South Africa's economy by maintaining interests in some 1,300 South African firms and controlling roughly a quarter of the South African stock market. Their corporate structure is based only in part on majority share ownership of its subsidiaries, associates, and other firms. Most of their control and influence lies in a web of connections based on family ties, friendships, and mutual business interests, a clan that is often referred to as the Oppenheimer Empire. Anglo American has become essentially a holding company, with operations being the formal responsibility of a group of associates (Katzenellenbogen, 2003: 30).

## **Appendix 5.**

### THE EITI PRINCIPLES AND CRITERIA.

What is now known as the EITI process evolved from the first statement of the EITI principles at the Lancaster House Conference in June 2003. The EITI principles and EITI criteria are the most concise statement of the beliefs and aims of the initiative, and they are endorsed by EITI stakeholders, supporters, and implementers.

### **The EITI Principles**

The EITI principles, agreed at the above conference, provide the cornerstone of the initiative. They are, as the EITI themselves quote:

- ‘We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.
- We affirm that management of natural resource wealth for the benefit of a country’s citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
- We recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
- We recognise that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
- We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.
- We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.
- We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring.
- We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.
- We are committed to encouraging high standards of transparency and

accountability in public life, government operations and in business,

- We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.
- We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.
- In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations'.

### **The EITI Criteria.**

The implementation of the EITI, as the EITI themselves quote, must meet the following criteria:

- 'Regular publication of all material oil, gas and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
- Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
- Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.
- This approach is extended to all companies including state-owned enterprises.
- Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.
- A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints'.

Source: EITI website at [www.eiti.org](http://www.eiti.org) (accessed 01/06/2011).

## **Appendix 6.**

### THE EVOLUTION OF CHINESE SOEs

The evolution of the SOE in China has been a process from a model where the state holds all property ownership and managerial rights, to a contracting model where the firm assumed responsibility for its own profits and losses, to a model that resembles corporations in the Western sense. Schipani and Junhai (2001: 1) state that these SOE governance models can be classified firstly as the traditional model (1950s to 1984), secondly as the transitional model (1984 to 1993), and finally as the modern corporate model (1993 to present). These institutional environment level models will now be outlined.

#### **The Traditional Model (1950s to 1984).**

The traditional model of SOE governance is also referred to as the state-ownership model or the state-owned and managed model. In this model, state ownership was the only legal form available to safeguard state property. The state owned all the property rights, had managerial powers, and the SOEs were deprived of economic and legal independence. State planners were able to mobilise human and financial resources and to decide production and distribution. SOE executives had the duty to fulfil the production plans of the state and not to enhance profits, and therefore, SOEs were not real businesses. In fact, most SOEs were simply referred to as factories and functioned as state affiliates responsible for producing goods and services, and accordingly, the governance structure was an integral part of the general governmental framework. SOE executives were appointed and dismissed by state agencies, were responsible to those agencies, and enjoyed the same political and economic treatment as state officials. Executive achievements were not evaluated by financial performance, but by performance in the terms of satisfying the state plans. Due to the fact that SOEs and their employees effectively lived off state financial input, SOEs were not only production units, but also social security units. SOE employees received an ‘iron rice bowl’ for life in terms of salary, housing, medical treatment, and pensions (Schipani and Junhai, 2001: 1-2).

#### **The Transitional Model (1984 to 1993).**

The transitional model, also known as the state-creditor’s rights model, or the

contracting model, dominated until the Company Law was enacted. The strategy was to encourage SOEs to expand production and to earn profits, whilst the goal was to make SOEs responsible for their own gains and losses. The main tool to achieve this goal was the separation between state ownership and management rights to transform SOEs into legal entities. In order to achieve the reform objectives, the SOEs Law was adopted in 1988, which recognised that:

- the property would be owned by the people,
- the SOE would be managed with state authorisation based on the principle of the separation of ownership and management,
- the SOE would obtain the status of legal person in accordance with law and bear civil liability with the property,
- the SOE may, in accordance with the decision of government agencies, adopt contracting, leasing or other forms of managerial responsibility.

The 1988 SOEs Law introduced a corporate governance structure with three salient features:

- the managing (factory) director assumes overall responsibility for the management of the SOE, and acts as its legal representative,
- the local representatives of the Party in the SOE guarantees and supervises the implementation of the Party's guiding principles and policies,
- the SOE is allowed, via the employees' congress and other forms, even trade unions, to practice democratic management.

Between 1987 and 1993, in order to govern the relationship between the state and the factory director, the contracting system was adopted. The basic principle of the contracting system was to fix a minimum amount of SOE profit that should be paid to the state, and allowing the SOEs to retain the remaining profit. The result of the contracting process was that state intervention in SOEs was significantly diminished, and SOEs gained greater freedom to make their own business decisions. However, the transitional model failed to provide sufficient SOE reform because it was difficult to identify a reasonable minimum amount of profit to pay to the state, and although most SOEs enjoyed benefits when they were profitable, they were unable to pay the fixed amounts when they had losses. Too little SOE profit was reinvested, leaving insufficient resources for future expansion. In addition, huge amounts of SOE assets were

expropriated for personal uses. The need for further reform was clear, and consequently, policy-makers began to look to the Western modern corporation model. Furthermore, transitional SOE leaders had greater managerial powers than their predecessors in traditional SOEs, together with more resources, facilitating embezzlement and misuse. In addition, this transitional period, included unnecessary and excessive government interventions (Schipani and Junhai, 2001: 2-6, 45-46).

### **The Modern Corporate Model (1993 - present), and the 1994 Company Law.**

The 1994 Company Law combines Western influence with an effort at innovation. It imports two types of firms, limited companies and joint stock companies from Anglo-American systems, and adopts the two-tier board structure of the German system (Wei, 2002: 98). In the years since the introduction of the Company Law, the incorporated sector has contributed an increasing proportion of the output of all firms in China. In 2003 the incorporated sector contributed some 63% (71% collectives included) of national output (Krug and Hendrischke, 2008: 101).

One of the goals of SOE reform at this stage was to establish a modern corporation system in large and medium-sized SOEs, and corporate legislation was perceived as an essential instrument for corporatising. Therefore, the 1994 Company Law provides a solid legal foundation for the transformation of SOEs, which has since been accompanied by the Securities Law of 1998. In addition to legal sources, the memorandum of associations of each corporatised SOE plays an active role in designing corporate governance structures. The Chinese memorandum of associations is comparable to a document that would combine both the articles of incorporation and bylaws of US corporations.

China's Company Law stipulates that all Chinese limited liability corporations must have modern corporate governance institutions (McNally, 2002: 104), with three statutory and indispensable corporate governing bodies (Schipani and Junhai, 2001: 6). These governing bodies are shareholder meetings, boards of directors, and boards of supervisors (McNally, 2002: 104). In addition, it introduced two statutory corporate positions, namely the chair of the board of directors and the chief executive officer. At first glance, the corporate governance structure in the China of today appears similar to the German two-tier system, since German corporations are also governed by a board of directors and a supervisory board. However, in China there is no hierarchical

relationship between the board of directors and the board of supervisors, and both directors and supervisors can be appointed and dismissed by the shareholders. By contrast, the German supervisory board oversees the board of directors, and board members are appointed and dismissed by the supervisors. Chinese corporate law recognises two types of corporations, which are closely held corporations and publicly held corporations. Each category contains special provisions allowing subcategories, organised according to the ownership structure of the corporation. Nevertheless, the governing bodies in both closely and publicly held corporations are substantially the same (Schipani and Junhai, 2001: 6-7).

A revised Company Law of 2005 in China came into force on January 1, 2006. The main implications of this was a lowering of the transaction costs associated with establishing a limited liability company, greater enhancement of the rights of minority shareholders, and an introduction of mechanisms designed to create greater transparency and accountability in corporate governance. All limited liability companies must now establish a supervisory board to act as a watch dog to ensure that the management and directors fulfil their obligations. In particular, the common-law doctrine of 'piercing the corporate veil' was introduced, allowing creditors to access the assets of the all shareholders to repay company debts. Under the previous limited liability form, minority shareholders are not personally liable for debts (China Solutions, 2005).

## **Appendix 7.**

### THE DEVELOPMENT OF CHINESE SOEs

In China, a SOE is a firm that was confiscated by the Communist Party from the former Kuomintang government, a firm purchased from the national capitalists after 1949, or a firm established by the state since 1949. When the People's Republic of China was founded, the ruling group instigated the adoption of a command economy with little place for market mechanisms and private ownership, and all of the old corporations were gradually nationalised (Wei, 2002: 101, 108).

To regulate private business, the new government enacted the Interim Regulations Concerning Private Enterprises in 1950. This divided private business into sole traders, partnerships, or companies. Shareholders were able to exercise their residual rights through shareholders' meetings. However, an important characteristic of the legislation of 1950 was that it enabled the state to incorporate the productive activity of private business into its economic plan. By 1953, the first five-year economic plan was launched, and private business reform accelerated. Private businesses were restructured to become joint state-private enterprises. The 1954 Interim Regulations for Joint State-Private Enterprises provided regulations for joint state-private enterprises in the form of limited companies. The shareholders were the state and private investors, and all shareholders had limited liability. In addition, the state could appoint representatives to participate in management. By now there were no shareholders' meetings. The 1954 legislation stipulated that joint state-private enterprises were subject to the leadership of the state, but jointly managed by state representatives and private agents. By 1956 all private businesses had been converted into joint state-private enterprises, and in that same year, the State Council enacted new rules, fixing the dividends of private shareholdings in joint state-private enterprises to just 5% per year. These new rules effectively converted private shareholders into creditors. Consequently, the joint state-private enterprises, which were the only remaining limited companies, were converted into SOEs (Wei, 2003: 92-94). This 1956 transformation of joint state-private enterprises into SOEs marked the extinction of the Western-style corporate form in China. In the following two decades, China experienced economic stagnation, and the poor performance and inefficiency of the SOEs was clearly perceived by the Chinese

leadership (Wei, 2002: 101-102). Nevertheless, for a Chinese SOE, the state controls both the enterprise and the bank which finances it and receives the entire return from refinancing. Therefore, the state can internalise the costs of monitoring.

Che and Qian (1998: 22) believe that because sunk costs, costs already incurred which cannot be recovered regardless of future events, are relatively low for large SOEs, the incentives for refinancing are high. Consequently, continued state patronage for large Chinese SOEs appears desirable. In addition, the Chinese government of today feels that high social costs would result from the total departure of state ownership from firms. These social costs would be higher unemployment and an increased risk of social instability. Therefore, many Chinese accept that state shares in firms that are not essential to the national economy should be permitted to be sold on stock markets to enable the market control mechanism to operate and to provide greater financial sources for firms (Wei, 2002: 110), so long as the state maintains a majority shareholding.

## **Appendix 8.**

### THE SEMI-STRUCTURED INTERVIEW PLAN.

Interviewers must have a pre-prepared interview plan for conducting semi-structured interviews. Laforest (2009: 7-8) presents a sample semi-structured interview plan for researching safety diagnosis in local communities that can be adapted to other contexts. Laforest reminds the researcher that the interview plan should be used in a flexible manner. It should be adapted, if necessary, to the topics the interviewer seeks to explore and the type of informant being interviewed. There are three sections to the semi-structured interview plan that is suggested. The first section of the semi-structured interview plan is concerned with introducing the interviewer, and it should be easily adapted. The important point here is that the interviewer introduces himself or herself to the interviewee and reminds the participant of the issues that will be discussed during the interview. In this way, the interviewee will know exactly what the interviewer's expectations are.

The second section of the semi-structured interview plan is the main part which should indicate which issues are to be discussed and suggest possible questions. Contrary to the situation with a closed questionnaire, interviewers do not have to ask all of the proposed questions in the interview plan, and they should merely follow the general outline. In order to make the interview flow more easily, one should summarise each issue that has just been discussed before moving on to another issue. In addition, the interview will also flow easily if one asks the main questions first whenever a new issue is introduced. In any event, the interviewer must choose questions with which they are at ease and which are adapted to the interview. The second section of the proposed plan should also have clarifying questions in the event that the interviewer would like the interviewee to explain certain things in more detail. Interviewers should keep a few different versions of such questions in mind so that they can encourage the interviewee to keep the discussion going. Furthermore, in the event of interviewees having difficulty in addressing certain issues, then interviewers should give some examples. Nevertheless, interviewers must not suggest answers.

The third and final section of the semi-structured interview plan is aimed at concluding the interview. The goal here is to enable the interviewer to make sure that the issues they wished to explore have been covered and/or clarified. Obviously, one

particular interviewee may not be able to talk about all of the issues that the researcher wants to address in a thesis. Therefore, it is important to decide what issues are pertinent when the interview is being prepared. Acknowledging all of the considerations outlined by Laforest, the following semi-structured interview plan was proposed which has been adapted from the one presented by Laforest, and it was used as a guideline.

**The first section: the introduction of interviewer.**

Hello, my name is Steven Kort, and I am a PhD researcher at the University of Worcester. The title of my thesis is *Comparing the Transfer of CSR Principles by Western and Chinese Extractive Industry Firms to Promote African Development: A Co-evolutionary Approach*. Therefore, during the interview, I would like to discuss the following themes:

- Corporate governance.
- Corporate social responsibility.
- Embedded corporate cultures.
- Institutional environment.
- Social issues.
- Environmental issues.
- Development.
- Transparency.
- The governance climate in Angola and/or Africa.

With these issues in mind...

NB. Depending upon the interview, issues were added and/or excluded.

**The second section: the main part of the interview, using the example of exploring the issue of the governance climate in Angola.**

Main questions:

Can you tell me about the governance climate in Angola?

In your opinion, is the governance climate in Angola representative of the whole African setting?

Additional questions:

- How did you learn about these issues?
- Why is it considered a problem?

- Why is it not considered a problem?
- How do problems arise?
- How is the scope of the problem important?
- How are people affected by the problem and who are the main victims?
- How does what happens now represent a change to past?
- How do you explain the problem?

Clarifying questions:

- Can you expand a little on this?
- Can you tell me anything else?
- Can you give me some examples?

**The third section: concluding the interview.**

Clarifying questions:

- Can you expand a little on this?
- Can you tell me anything else?

Additional questions:

- Can you give me some contact details of other people to talk to?

## **Appendix 9.**

### **Semi-Structured Interview with Professor John Child of the University of Birmingham Business School, 25<sup>th</sup> November, 2010.**

**Key:**

**SK: Steven Kort (interviewer)**

JC: John Child (interviewee)

**SK: Can you tell me about the economic reform period in China, in relation to how the firms, and if you can the state owned enterprises, the national champion state owned enterprises, how they have evolved with the institutional environment?**

JC: Well, if you're particularly interested in the national champions let me first point you to one or two other sources you may or may not have come across. Have you come across Peter Nolan?

**SK: Yes.**

JC: Okay. If we take the story up to... I'm not sure if they've done anything recently, if we take the story up to the beginning of this of this century. Also there was the work of Gordon Redding, the Redding and Witt book, have you come across that?

**SK: Yes I have.**

JC: Have you come across Barbara Krug's work on local state enterprises?

**SK: Oh that name sounds familiar.**

JC: She works at Rotterdam School of Management. Her book was published by Edward Elgar in 2007. Now yeah, there are national champions which are state owned.

**SK: They are state owned.**

JC: I don't know how far you want to go with the economic reform; of course it officially started at the end of 1978.

**SK: Pretty much that far back. I've looked at BP right back to when they were Anglo-Persian and I've looked at the early corporate period in China.**

JC: It started primarily in the agricultural sector but then by about '84 you started getting some reforms in the enterprise system particularly the internal government of enterprises and shifting from leadership by the Party and the Party executive committee to the enterprise director, and that was the beginning of the movement towards normal executive line management as we would know it. State enterprises, the larger ones were

still subject very much to and controlled by their respective ministries and there is still as far as I can tell certainly a large degree of interweaving between the ministries which is not the case with the general run of state enterprises which have been progressively devolved in terms of control and to some extent ownership. Some of them are joint-stock companies. There have been a few cases where they've even been acquired by foreign companies, particularly if you've got a big failing state enterprise. And there's been another development in an area which is always a little bit ambiguous and that's more at the provincial and local level because the movement that was originally called township and village enterprises, and these are certainly not the national champions, were just seen as supplementing the rural economy in terms of employment, but often they discovered very rapidly, discovered niches that state enterprises are not catering for very effectively. They then became collective enterprises which meant strictly speaking they were owned by the employers but in practice meant they tended to come under the tutelage, if you like patronage, of the local government. They weren't officially state enterprises but they were certainly not private enterprises. Some of them have since become private and of course you will see people talk about privatisation of the collective sector and even some state enterprises seem to become privatised. The big movement has been the growth of private enterprises from, you know usually very small outfits and this is the most dynamic and entrepreneurial sector in terms of, when you look at the statistics, employment because you've still got under-employment in the state sector; and then of course there's the so called foreign funded enterprises, foreign ventures, foreign owned business. Now so far as the large state enterprises are concerned I know in an area that I've just touched on a little bit with some colleagues more recently which is their ability, their freedom to invest abroad, that's a particular issue. They have been increasingly encouraged to do this but they've also been freed from the many bureaucratic approval conditions and restrictions that they were previously subject to. This only started around the year 2000.

**SK: Yes. Do you think that state patronage is still very important?**

JC: Yes of course.

**SK: China has had a long history of that. When they earlier adopted the corporate reform they relied significantly on state patronage.**

JC: Yes.

**SK: So that's very important I think.**

JC: It is very important and there's still a lot of guidance regarding their strategic priorities coming from the state. There's no doubt about that. Now, how this impinges on issues of corporate social responsibility I don't know. What seems to happen at least with going abroad with these sorts of enterprises is that a lot of the ground is laid government to government by government understandings so Chinese officials will reach an understanding with Angolan officials. They kind of ease in the state enterprise which I'm sure locally is seen as an arm of the Chinese government which is not an unreasonable way to perceive them.

**SK: Would you say it's very much state-led capitalism?**

JC: Well some people call it state capitalism, yes. But and this is where the Redding and Witt book is useful. One has to bear in mind this is just one sector of the Chinese... it's one business system among many and China is characterised by three or four different business systems. Now in terms of you're looking at them going abroad, in terms of foreign investment it has particularly been the state sector, the large state enterprises have been particularly important because the majority, in terms of the value of foreign investment, has been asset seeking: raw materials, some food supplies and so forth. So you see it in Sudan where I believe China takes pretty much takes all of the oil out of Sudan, you see it in Angola and maybe other places. You see it increasingly in Latin America, you see it in Brazil... not so much oil yet although that may be will come in time but iron ore and food supplies, and the Chinese put in a lot of infrastructure. I'm sure that these investments are based on soft loans from the government. So you've got the funding angle and you've got no doubt a big sort of steer in terms of political needs to meeting Chinese strategic interest to secure its raw materials and food.

**SK: How would you say that... Chinese investment often involves complimentary investment from the Chinese state, so how do you think that could give them an advantage compared to a Western multinational with a CSR package?**

JC: First of all I think the Chinese would say their principle is no conditions attached. So they're not going to ask too many questions and worry too much about people's practices. That I think in the eyes of local politicians would obviously give them a considerable advantage.

**SK: Absolutely.**

JC: Secondly the Chinese don't, as far as I understand it, follow a policy to this giving of aid but they go in and they will build particular projects. There is a long history. They built the railway in Tanzania. That was back in the 70s so there's a long history.

**SK: They are rebuilding the Bengali railway currently and other tracks.**

JC: Bengali, I think it's Angola.

**SK: Angola, yes. But I mentioned it as an example.**

JC: One of the projects they did in Africa and it goes back, was in Tanzania, I've forgotten the name of it now, it was a major project and the Chinese have become very good at building infrastructure.

**SK: So they have a long history of building infrastructure in Africa?**

JC: Oh yes they do, yes. And you can trace it back. I don't know the history of how long back their association with countries like Sudan goes because it may go back quite a long way. Tanzania, it probably goes back even further but I'm not sure how active they are today in Tanzania. I suspect... it takes two to make a relationship. I wonder whether in a country like Tanzania which has actually as I understand become more democratic and more open...

**SK: Not as good as Botswana perhaps?**

JC: Oh no, Botswana is an exception. But one wonders and I suspect the Chinese are clever enough to adapt to the local system and they may well prefer to deal with people who are in a system that is not so open, where not so many questions are asked even by Africans. It would also be interesting to see and one hears reports of tensions in some places with local staff, local workers because there's some projects, the big projects, they bring in Chinese workers. So the complaint is they're not doing anything really for Africa. They may be putting money in the pockets of some politicians.

**SK: Oh clearly yes, but what about the people?**

JC: The local complaint is that they're not doing anything directly for the people. Now I don't know how justified that complaint is.

**SK: Did you know that Zambia had a presidential election a few years ago, and the opposition candidate campaigned on an anti-Chinese platform, saying that Zambia had become another province of China, and not just because of the Chinese bringing in all their own labour, particularly in the mining sector.**

JC: It was an issue.

**SK: Indeed it was an issue. As it worked out he didn't get the presidential post but he did establish himself as a very powerful political force. He won a lot of votes in the mining areas. Of course that was the Copperbelt.**

JC: The other problem from a local point of view as well is the Chinese tend to not only bring, often bring in their own workers, but they bring in their own management. So they are, a bit like the Japanese have sometimes been accused of being, they are sort of self contained which obviously is not going to lead to very good communication with ordinary people. They may have their lines established with the politicians, with the decision makers but it doesn't mean to say that they're doing very much PR or demonstrable social responsibility in the sense of contributing to the local community.

**SK: Do you think that's one advantage that a Western firm might have? I know that BP has had a very long history of at least trying to employ local people.**

JC: Yes if a Western firm offers training to local people it's going to help with local employment. Yes I think that's all about education.

**SK: When BP were originally in Iran, it was Anglo-Persian then, there were a lot of complaints that they were employing Turks or British nationals rather than local Iranians, but they did address that by training and educating locals. So do you think over time that's a lesson that a Western firm like BP has learnt whilst China have yet to learn that lesson?**

JC: Could be, yes. I think that would be received positively, an effort to train people, local people. On the other hand I don't know from a purely business point of view whether the Chinese way of dealing with political power puts them in a position to do that. I'm sure it does give them a short...

**SK: It gives them an advantage?**

JC: It gives them a short term advantage. It's debatable isn't it? Some people say there are signs that Sub-Saharan Africa is becoming... more and more African countries are becoming more democratic, more open, in which case this Chinese approach if that's what it is will possibly not be so consistent with the local situation.

**SK: So in the long term it may not be applicable?**

JC: Yeah and no doubt they're doing deals with Mugabe but is Mugabe going to last, is that system going to last?

**SK: Quite.**

JC: And if it doesn't then of course all of a sudden if the Chinese have been seen to back him maybe it could be a big disadvantage for them. So in the short term it may pay off, in the long term it may be a riskier policy than a more open Western approach.

**SK: The second theme that I wanted to explore... can you tell me whether in your opinion China is evolving in her own unique business model or simply embracing foreign models and adapting them? I'll give you an example here of the kind of thing I'm after and you can maybe tell me a similar story. Have you heard of the Kailan Mining Administration?**

JC: No.

**SK: We are talking about the early 20<sup>th</sup> century here when China originally adopted the corporate form before 1949. This was a British owned firm operating in China and they employed a guy called Liu Hongsheng as a, have you heard of what a comprador is?**

JC: Yes.

**SK: In addition to his role of comprador, like other compradores he owned his own businesses and he used this position as comprador to further his own business interests and to learn about modern Western business practices. So he learnt about Western style corporate practices and he adapted them into his own businesses, and it has been viewed not as a means of Westernisation but as a tool to improve like I said his own business practice and even as a tool to improve the economic well-being of China. He was called later, during the communist era, a Chinese national capitalist.**

JC: Yes.

**SK: Therefore, do you know of any similar cases in the more recent periods?**

JC: There are, as Nolan pointed out in one of his books, there have been examples of Chinese entrepreneurs even in the state sector who have become quite prominent and there was a period when the authorities seemed to get worried about them becoming too powerful and so they were trying to cut them back. That has happened I think less recently so you'll have people like the Haier corporation which is technically a collective but it operates more like a state enterprise.

**SK: Well somebody I interviewed the other day told me that Haier is probably the only Chinese corporation that most people have actually heard of.**

JC: Yes it's been very successful. But there are others. There is a lot of credit being given and publicity even to the leaders now of state enterprises and this is a kind of reversion I think to a Confucian view of leadership, the importance of leadership but the particularly Chinese aspect of it is that it's supposed to be leadership of effectively a kind of family, with mutual obligations. This is very strong in Confucianism and you're seeing this as far as I can tell in the culture of some of these even large enterprises where it may be difficult to maintain because of their large size.

**SK: Respect for the leadership?**

JC: It's respect for the leadership but it's also the leadership claiming and trying to demonstrate respect for the workforce, and indeed starting to put a lot of training and a lot of investment into the workforce. Now may not be true for the traditional enterprises, the smaller family enterprises, but it seems to be a characteristic as far as I can tell of many of the state enterprises and it's something that is being publicised. In terms of actual methods, I think they have learnt a lesson from the West... I don't know how much they've adapted them. It also ties in with the social safety net whereby they have in the past tried to avoid lay-offs but there have increasingly been lay-offs particularly from failing state enterprises. I think probably for the successful ones they still maintain a sense of security because that's part of this package, you know looking after your followers.

**SK: Do you think that has an influence when the Chinese firms go abroad? I'm thinking here about the fact that they bring their own Chinese workforce rather than employing locals.**

JC: Well the impression I get is that when they do employ both Chinese and locals that their practices diverge quite a lot. I don't think they're very accommodating towards the locals in a context such as Africa.

**SK: They prefer to look after the Chinese workers?**

JC: My impression is that they provide the minimum of training that they need to train up the locals for employment. I would not be surprised about this because there's always been a sharp distinction in Chinese culture between the Chinese and the foreigner. But I think there are signs of a distinctly Chinese approach to managing workers. For example, I talked with a lady who is the CEO of a steel company, specialised steel. It's very successful and she was telling me she believes in a

management style that seems to be a combination of paying very favourable wages but linked to performance, and at the same time a lot of pretty close supervision as to what's going on, so the control element is high. But this company is located in an inland province Jiangxi, in the capital Nanchang. In Nanchang I guess there may be a willingness to accept these kinds of methods particularly if the workers are paid well. It may not be so acceptable in Shanghai anymore because along with modernisation comes a change of attitude.

**SK: It's not a national champion?**

JC: No it's not a national champion, it is a very successful company. It suggests an emerging distinct Chinese style of management, particularly as a lot of scope now has been given to business leaders to put their own ideas into practice.

**SK: So it's like an organisational hybrid company?**

JC: Could be, yes could be.

**SK: Have you heard of Jian Chen's book?**

JC: No.

**SK: He wrote about corporate governance in China and wrote that it was Anglo-Saxon in principle, but in reality it's more akin to the German Japanese model. So it's this hybrid.**

JC: Well that wouldn't surprise me. A little bit more communitarian if you like, but that wouldn't surprise me. That would certainly fit with a Confucian model. Now I'm not saying they're all influenced equally by Confucianism but it is a factor in Chinese culture and it's been allowed to have more influence, very much more in recent years.

**SK: Culture is very important in any system isn't it?**

JC: Yes.

**SK: The next theme I would like to cover is, in your opinion, is the Chinese business model transferable to other developing countries?**

JC: That's a good question. Well I'm sure that their labour practices would be insofar as what probably goes on in Chinese companies is probably suited to unskilled labour and some of whom has been recruited recently from the countryside and so forth which you will find in some other emerging economies. So that's a factor. In terms of attitude towards a style of management and towards leadership... yes. It's a characteristic of many emerging economies because it may be an element of traditionalism, more respect

for authority, more acceptance that people in power have the right to tell you what to do and you don't question it, and insofar as that does characterise relations in Chinese firms, which I suspect it does, then that might be transferable. So I think in some respects yes, it probably could be transferable, but as culturalists would say there's always the need for re-contextualisation. What I've always found interesting and useful here is a notion concerning the transfer of Japanese practices like quality circles, where when the Americans first just tried to copy the practice, the concrete practice, it didn't work because the context was different in the American environment from the Japanese sort of approach. But when they learnt what was the principle behind it, and transferred the principle and worked out a concrete application of it, then it worked. It could be that there are certain principles in the Chinese approach which they may develop successfully. These may be generally suited to emerging economies but again their specific application would need to be sensitive to the institutional and cultural context.

**SK: It would be certainly sensitive to the institutional context. But do you think that, because another developing country will be in catch up, China, even though it's a very large economy in terms of its aggregate GDP, it's still pretty much in catch up stage and in that sense the model might be viewed as transferable? You could argue that when you're in catch up stage any model could work.**

JC: They're not in catch up mode anymore in some industries.

**SK: Certainly not in some industries.**

JC: Not for example with high speed trains or electric cars. Maybe a little bit with autos but not so much as previously.

**SK: And not in construction?**

JC: Construction, no. They have transitioned from the catch up stage to become leaders in the field and to go beyond competing just on the basis of low cost. I think they're no longer on the whole a low cost economy. There may be areas where they still need to catch up, but in terms of quality of product and design, they have caught up a lot now.

**SK: Do you think it depends where you are, in terms of being a low cost economy? I mean Shanghai is one of the most expensive places in the world to live.**

JC: Yes, there have been pressures to push wages up; and no, China is no longer a very low income economy. Maybe it will follow a similar path to Taiwan. You see Taiwan now is not a low wage economy, and it has invested a lot in scientific and engineering

education which the Chinese are now doing.

**SK: It's the Chinese nationalists in Taiwan isn't it?**

JC: Yes.

**SK: It's even now called the Republic of China.**

JC: I have a colleague here who is from Taiwan and I'm always having some fun with her because she says, "Oh I'm from Taiwan". I say, "Yes you're Chinese, from the Republic of China. When are you going to connect back with your mainland?"

**SK: Do you think that will ever happen?**

JC: I think it could, yes I think so, because some people have said that China is more a nation than a country. In other words, because of family and there's still a lot of family ties between many of the people who come to Taiwan and relatives in nearby provinces like Fujian.

**SK: Perhaps a model for welcoming Taiwan back to the mainland like there was for Hong Kong?**

JC: Well I was going to say this one country two systems model could be the way that it is achieved.

**SK: I've got a very quick question now. I've often come across Western media sources and their perceptions of China, what they are doing in Sub-Saharan Africa and complaining about what they are doing particularly in Sudan. Do you think that such negative perceptions of China are fair?**

JC: Probably not entirely because there's always a tendency to criticise a powerful nation as the Americans have been, particularly if that nation starts to flex its muscles and is seen to be throwing its weight around. China has clear strategic needs which are now taking it onto the world stage.

**SK: And you could argue that its strategic need is not any different to that of the West?**

JC: No it's not. They're just as concerned about their future as any other nation. I think criticism of China's ascendancy isn't entirely fair.

**SK: Can you expand a little on this?**

JC: Well I'm mindful of the fact that there have been and are a lot of stories about China and the Chinese. Some of it may be misunderstanding although we've learnt a lot more about the Chinese than we used to know, about their culture. One of the things that I

was briefed on before I went to China was how to recognise the fact there are about five different kinds of laughter in China, and there is a meaning in what people are saying and to realise that you're not dealing with a simple culture. You're dealing with one where certainly better educated people are very subtle and sophisticated in what they do and say, and I think that's true, but it can lead to misunderstanding.

**SK: We've touched on governance already, but to how much extent in your opinion are Chinese firms well governed? I'm thinking here of the state owned enterprises, the national champions. To how much extent is the corporate governance of these national champions comparable to international standards? From what you know of course.**

JC: Corporate governance, if you take the traditional and I think the rather narrow view...

**SK: The principal-agent problem?**

JC: That's right... the rather narrow view, which is concerned with whether managers as agents meet the requirements and interests of the principals then I think that mechanism is very much in place in China because the principal there is the state. The state if anything is increasing its governance powers even into private enterprise because they are increasingly insisting that entrepreneurs join the Party, they're trying to extend the role of the Party and the Party Secretary in the larger private enterprises, so I think the one thing the Chinese authorities are most concerned about is exerting control. From that point of view their governance system is actually fairly effective.

**SK: In that case, do you think there is a danger of too much state interference? I have looked at the early adoption of corporate form before 1949, and it didn't really work very well. One of the reasons for this failure was that the government progressively increased their control and interfered too much in the management of firms. So do you think that there can be too much interference?**

JC: Yes, but they have at the same time delegated more to management and I think that management has become more...

**SK: Autonomous?**

JC: Yes, and China has been turning out a lot of these programmes where Chinese managers are studying business abroad and some of the programmes seem to be quite good. I've come across one that was very good although admittedly it's along American

lines, but it provided a channel whereby some American practices can be introduced into the Chinese system.

**SK: Therefore, if the government is interfering but so long as the management has sufficient autonomy it shouldn't be a problem?**

JC: That's right. Now if you take the stakeholder point of view, how well they are responding and taking into account the needs of the local community and the environment, that may be another matter. But I think so far as a narrow shareholder point of view is concerned or ownership responsibilities concerning governance then I think it's actually quite strong.

**SK: The last question now... to how much extent, in your opinion, do multinationals use CSR strategically? I mean here, considering the work of Wiig and Kolstad, who researched oil multinationals in Angola and they found that improving governance was not an issue in their CSR principles. Their CSR was only used strategically in order to receive licenses to operate in Angola.**

JC: Well using it strategically doesn't necessarily mean that they're not going to follow that up with action. It's not just what they can get away with in a local situation. It's also going to put them in the face of public opinion and even shareholders in their own countries. Now I came across this a few years ago, working with somebody on the attitude of chemical multinationals in China and in Taiwan towards environmental protection, and our initial expectation was that they would take account of what was a fairly lax regulatory environment in mainland China. We found that wasn't the case and it wasn't necessarily because their decision makers believed from a moral point of view, if you like, or from an ethical point of view in CSR or in this case environmental responsibility. It was primarily for two reasons. One is that as the Bhopal incident in '86 showed, a transgression locally can almost wipe out a company, even a multinational because the it has to deal with the reaction on its home ground, not just the reaction where an incident occurred. So that was one factor and, of course, that was in the chemical industry but I think it applies to other industries too. So I'm sure that the Mexican Gulf incident is going to change a lot of practices in BP. But that may not be a good example because we're not talking about a developing country here. The second factor which may not apply to oil but it applies to chemicals was that these multinationals did not want local Chinese firms to be allowed to come as competitors

who need not incur any costs of dealing with effluent, toxic waste, and the like.

**SK: You mean like a free-rider?**

JC: Yes exactly. They wanted the local firms to bear the same costs and therefore felt that it was in their interest to do anything that they can to help the Chinese government formulate not only effective rules, but the means to enforce them. So in fact the net result was that they took, what you like is an aspect of CSR to do with the environment, they took it very seriously but it was in their own interests. So you could say it's a strategic move and it wouldn't surprise me if that doesn't apply for a lot of firms.

**SK: Well thank you very much for granting me this interview.**

JC: No problem.

## **Appendix 10.**

### **Semi-Structured Interview with an Anonymous Expert Witness from within the CORE Coalition, 2<sup>nd</sup> November, 2010.**

**Key:**

**SK: Steven Kort (interviewer)**

CCET: CORE Coalition Expert Testimony (interviewee)

**SK: Can you tell me about the CSR industry in general and how it's evolved?**

CCET: Well it kind of really came out of the, it's a very new industry and it's in its teenage years really. It's relevantly young and it kind of evolved in response to the anti-globalisation movement, after the riots in Seattle there's a strong feeling from citizens and activists all over the world that these companies were having too much power, more power than their own government, as it were. Communities saw that they were doing harm to people and the environment and they wanted more checks and balances to be in place to stop these multinational companies, in some cases resisting and in other cases introducing laws and standards to ensure that they didn't commit harm, and when they did they wouldn't get away with it. The business response towards that was the birth of CSR, which really started with a lot of philanthropic activity such as building schools and wells and there was a significant amount of investment in improving particularly big multinational companies brand in terms of so that they could place themselves as an ethical or a responsible company which would consider these environmental and social issues in their operations. CSR officials were generally appointed into the public relations department of the firm to try and improve the company's reputation in terms of environmental and social issues, various voluntary initiatives popped up in terms of helping companies develop their thinking on CSR, most notably internationally there was the Global Compact.

The CSR movement, particularly in those early stages, was about companies doing good things, you know building a school or a well, it wasn't about companies managing their own environmental and social risk and ensuring that the harm that they did was minimised, managed and hopefully mitigated. There was a lot of criticism therefore by civil society groups and activists, that these CSR initiatives were just a public relations exercise, there was a lot of work from the environmental movement on

green washing and exposé of how companies are saying that are doing one thing but behaving very differently, including BP, and there was a lot of work done by groups like Rising Tide particularly a lot of interesting artwork playing on this Beyond Petroleum campaign of BP. The response of the critics of CSR was that there needed to be much more regulation on the multinational companies. This sort of came to head at the Rio Summit where there was a lot of pressure on states to introduce an international binding agreement and also, of course, the UN norms for multinational enterprises, which was another opportunity where civil society groups and some governments were very keen to introduce binding human rights and environmental standards onto these international corporations, because there would clearly be governance gaps in terms of the environment and humans rights abuses that the companies involved were committing. However there was a huge backlash from business against this regulation, and there was a polarisation really about between businesses on the one side saying that they were going to do these voluntary initiatives and CSR could ensure that they behaved themselves and civil society on the other side saying these voluntary initiatives are a load of rubbish, what we really need is more regulation. What was interesting is that in the early days, in the early assessments, it became clear that CSR may be of relevant interest of brand sensitive companies, but for the vast majority of companies who weren't very sensitive, or who worked in complex supply chains or joint ventures or subsidiary companies, there was no actual sort of competitive advantage in respecting the environment, respecting human rights, and that if there was no competitive advantage in being ethical then why would a company be ethical? It goes against the basic legal foundations of what a company was designed for, profit maximisation is what a company is about.

**SK: How far would you say that a CSR program is just about protecting the brand? I am thinking of BP here. I've heard a lot of things saying it's all about companies, I mean particularly BP, producing glossy reports saying that they do this and they do that, and they don't really deliver on it, so how far would you say it's actually about protecting the brand, protecting the reputation?**

CCET: Well it's all about protecting the brand.

**SK: That's all of it, it's entirely about protecting the brand?**

CCET: It's entirely about protecting the brand. I mean that's not saying that BP or

another company isn't considering environmental and social issues from another lens or perspective, they may consider investing in a complex zone and the risks associated with that from a brand perspective. They may consider it also from a risk perspective, both in terms of what risks the company will face on the brand in terms of the conflict with the government, with rebels and so on; but also in terms of the risk of NGO campaigns against the company, litigation and other risks, and the possibility of risk in terms of things going wrong. So just because, you know... CSR is a significant element of the environmental and social way that companies consider things, but it's not the only way that they would consider it. John Ruggie, the US special representative on business and human rights has done a lot of work and thinking on this, thinking of environment and human rights issues from a due diligence perspective which is important.

**SK: How do you think, the CSR initiatives have evolved? What I'm thinking of here is a company like BP; they have had a very long history of operating in the developing world. They were originally Anglo-Persian and Anglo-Iranian, but I know from the very early years they, on the social issues perspective of it, they learnt from their mistakes. For example, in the very early years the Iranian government was very, very cross with the company because they weren't employing many local people, not even for middle management, they tended to bring in Ottoman Turks if they didn't bring British labour over. But they learnt from that experience and they started educating Iranians so that they could employ more locals. Of course they were eventually kicked out because the oil industry in Iran was nationalised. However, I'm thinking here that the Chinese are coming in on the scene, but without the same kind of experience. So would you say that a Western firm might have more experience in implementing CSR than a Chinese firm that is now investing in oil?**

CCET: No.

**SK: Not at all?**

CCET: Why would BP have more, BP because it's an older company?

**SK: Yes, because it's an older company and perhaps got more experience.**

CCET: So would an older company with more experience be better at CSR, is that what you're saying?

**SK: Yes.**

CCET: When you say, with an older company, does experience make you better qualified to do stuff? Of course, yes as a general rule. However, in terms of corporate social responsibility the Chinese companies have got a very strong culture and legal framework which is designed to support the workforce, designed to protect the environment in a lot of ways, much more than the culture of western companies, and in terms of CSR, I think it's important to separate whether or not your question is actually referring too – are you talking about CSR per se, or are you talking about the environmental and social responsibility of these companies? And does BP's history mean that it has more experience and its more capable of dealing with environmental and social issues than the Chinese companies is a very different question than how good these companies are at CSR.

**SK: The environmental and social issues.**

CCET: Right. Well I think that BP clearly doesn't deal with environmental and social abuse effectively. I think it clearly hasn't learnt from its experience, so I don't think anyone could reasonably come to the conclusion to say that BP was a company which a new company would be in a worse position in, in terms of its performance, because BP clearly haven't learnt from experience. But in terms of CSR I think that Western companies do have some advantages with that debate, because CSR is a kind of Western brand and the kinds of things that CSR promotes and is interested in comes from a Western culture.

**SK: Can I ask you about transparency? How would you say that a company could be more transparent? I'm thinking specifically here of when they are dealing with Sub-Saharan Africa. Do you think... well I'll give you an example. In Angola BP were threatened a few years ago with having their contracts cancelled because they unilaterally decided to publish their accounts. All oil revenues are supposed to go through the Angolan state-owned oil company, Sonangol. Sonangol are supposed to transfer the money to the Angolan treasury but they actually divert monies via subsidiaries before it goes to the treasury, and of course a lot of money disappears. So when BP decided to publish their accounts, they objected to this, they said confidentiality agreements were being broken. So they sent a letter to say that they objected, but I think it was threat to other oil firms, and they were never really**

**serious about cancelling BP's contracts, it was more a case of scaring the other firms operating in Angola into not publishing their accounts. Basically, the initiative didn't work. So to make things more transparent, do you think that it's right that a company should try to do that on its own or should there be some kind of cooperation with other bodies?**

CCET: I think, I mean it's obviously a complicated area trying to hold them to account and ensure that companies are transparent when we're talking about international companies and national regulatory systems, and that there's a clear need for a cooperative effort both nationally, regionally, and also internationally; and so in the case of Angola, the Angolan government or the Pan-African Agreement or international agreements and Publish What You Pay. In many ways they've done a lot of work in this regard. There's a need for much greater transparency in terms of tax accounts, partnership agreements, and the other environmental and social data that's collated and how its presented, and the need for information to be given which is then audited... which is comparable, which is relevant, with a need for information, up to date information to also be available and accessible to stakeholders and there's a lot of work which in many ways has been done on all of this. Companies, some companies, do make difficult decisions that then means they're put in a position where countries make it impossible for them to be transparent about what they're doing, but they may leave.

**SK: Well like I said I don't think Angola were serious about cancelling BP's contracts, and I don't think BP really wanted to leave so how would you say all of this has been affected by China coming in now? Because of course China invest with no conditions attached, so do you think that would be more agreeable to some African countries when you consider a lot of Western firms are going to have at least some conditions attached? Like BP, they wanted some transparency. But the Chinese are coming in and they are saying we'll invest, no conditions attached. So how do you think Western firms are going to be affected by China coming in now?**

CCET: In terms of the environmental and social impact of the project, or brand, or condition of the -?

**SK: Well yes all of those things, but in particular do you think the Africans will actually prefer the investment from China?**

CCET: I think developing countries have got governments that generally have got a

strong desire for foreign direct investment. It's obvious that they want to maximise that investment with minimal risk and with minimal conditions attached. That's clear. I do not know, and I am not privileged, and I expect very few people are actually privileged to knowing what the conditions are attached to investments between these deals and I'm sure that they're incredibly complex and pretentious. I know that there's been a lot of stuff in the media about how the Chinese don't have conditions attached, that Western companies do, but how much of that is actually true or the Chinese have just got different conditions to the Western companies, I don't actually know.

**SK: So possibly a cultural thing?**

CCET: Yes, and I am conscious of the fact that there is a lot of anti-Chinese feeling going on which drives this debate and the cynicism and I think that there is a quite patronising colonial attitude by a lot of Western business people.

**SK: Just to clarify do you think the anti-Chinese sentiment is coming from the West, the anti-Chinese attitude that you refer to just then?**

CCET: In terms of the competition between the Western companies and Chinese companies, and Western companies voicing concerns about the lack of Chinese standards and the lack of Chinese conditions, I take a lot of that with a pinch of salt.

**SK: Do you think though that China could be seen as a development partner for these countries? I mean a large number of developing world countries have been quite welcoming to Chinese investments, at least initially. There is a debate which I've latched on to now, which is perhaps the honeymoon period for Chinese investment in the rest of the developing world is starting to be over. I think that we might be seeing the start of that because African elites certainly benefit from Chinese investment but the major problem I've heard about is that the Chinese employ very few locals, so do you think that's a problem that's going to manifest itself in the coming years?**

CCET: Well I think that there's generally a lot of scepticism about foreign direct investment, particularly in the extractive sector in terms of the impact on the environment and people, and you of course the resource curse; the Chinese companies certainly aren't going to be exempt from all of that.

**SK: Can I ask about the idea of strategic corporate responsibility? To how much extent in your opinion do multinational corporations use corporate social**

**responsibility strategically? What I mean here is that Wiig and Kolstad, two academic writers, suggested that a lot of multinational corporations present their corporate social responsibility programs and they promise to deliver on them, but this simply is a way of sealing deals, certainly in the extractive sector. Do you think a lot of firms use CSR strategies in this way? Do you think they use it strategically?**

CCET: I think that CSR initiatives can be very important in companies securing a social license to operate, yes. I am not talking about a physical license to operate. I am talking about a social license to operate which goes back to your previous point in terms of the backlash against companies and all companies need to be accepted, foreign companies need to be accepted in a local community. Going back to the risk management strategies of the company, BP has tried very hard to put in place systems or schools or projects which will win over the support of the local community, which clearly is in BP's best interests to do that. So yes of course some of the CSR initiatives are strategic, some of them are very un-strategic, like for example building two schools in a very small village, which has already got a school.

**SK: So why do you think they do that in that case? Is it risk management?**

CCET: It is strategic CSR.

**SK: So do you think that might be a good thing to explore?**

CCET: It seems very related to the business case of CSR and there's a lot of stuff about the business case of CSR, and particularly by people like Tomorrow's Company, who've have done a lot of work for exploring how the long term successful companies are companies which consider these issues, and deal with these issues and manage their environmental and social risks effectively. Again, there's huge limitations to that, in some ways it works for a brand sensitive company, if they're a company which is designed for long term investments, but there's plenty of companies for whom financially it makes much more sense to commit violations of human rights than it does to protect human rights.

**SK: How do you think that's come about?**

CCET: Because they're driven by what makes business sense.

**SK: As simple as that?**

CCET: Yes.

**SK: I think that's pretty much the main questions that I wanted to ask, so if you**

**don't mind I will ask for some background on the CORE coalition. You work within the coalition so can you just tell me about the CORE coalition?**

CCET: Yeah the corporate responsibility coalition was formed in 2000 and it now has 130 supporting organisations. Our members include environmental groups, human rights groups, that kind of thing. Our members include Amnesty, Actionaid, WWF, TraidCraft, and all our members, whether or not their organisational objectives are poverty, international development, the protection of information and human rights and workers rights; have all found in their experience that yes, although companies can sometimes be a force for good, the majority of UK companies when they operate abroad get away with violating human rights and the environment, and that in terms of the cases that they've looked at, that if they're going to achieve their organisational objectives, whether it be protection of human rights, the environment, or international development, they need to stop UK companies getting away with committing these violations and it's a key problem that US special representative John Ruggie talked about. There's no international law for these companies, there's no governance of these companies. You have poor countries who are prepared to compromise on environmental and social standards for things like foreign direct investment and plenty of wealthy countries who are quite happy to receive the funds and then the profit at the expense of the breach of these environmental and social standards. So CORE based its work over the last ten years, or for the last seven anyway, on securing members to the UK Company Law. We were instrumental in the introduction of a new statutory duty or directorate with regards to their environmental and social impacts and then there's the reporting legislation which requires the largest public limited companies to annually produce a report of their environmental and social impacts. Since the end of that campaign and the Companies Act 2006 coming into play we focus our efforts more on the issue of enforcements than on the law, and our latest campaign is the introduction of a new UK commission for business, human rights and environment, mandated to ensure that UK companies respect human rights and environmental standards wherever in the world they operate, and also have a duty to investigate, penalise and sanction UK companies who are not complying when they operate abroad. This campaign has already got some support from the Liberal Democrats and from a wide diverse range of civil society and academia. We have produced a report for the London School of

Economics which talks about how the complex web of social, political and economic reasons acts as a barrier to things getting addressed and the need for the UK to take action. It's all on our website though.

**SK: Well thank you very much for granting me this interview.**

CCET: Yeah I am sure you'll do a very interesting study.

**SK: I hope so.**

## **Appendix 11.**

### **Semi-Structured Interview with Professor Jędrzej George Frynas of the Middlesex University Department of Business and Management, 20<sup>th</sup> December, 2010.**

**Key: SK: Steven Kort (interviewer)**

GF: George Frynas (interviewee)

**SK: As we're relatively short of time, I'm just going to ask you to tell me just generally about corporate CSR principles of multi-national corporations in the oil sector. So can you fairly briefly outline what the major CSR principles of oil multi-nationals are?**

GF: A lot of them, you have human rights and you have - you work CSR principles that you are familiar with. You have environmental ones which will include also the thing from [unclear speech]. You have health and safety principles. You have payment of taxes to government and if... all the agenda includes are the tax revenues compliant with the extractive industries transparency initiative and so forth. So there are all sorts of very, very different types of principles.

**SK: What would you say was the main priorities for an oil multinational? I'm thinking here of BP because they have their beyond petroleum campaign. What would you say would be their priority? What would they – let's say for example social issues or environmental issues, which would they consider more important?**

GF: I'm the wrong person to ask. You have to ask BP, I can't say what their priorities are. I would suspect however, that social investment would potentially be a key one because it's very tricky, it's difficult to get it right and quite important to get the social licence to operate in developing countries which cannot be done without some sort of social investment. But then it doesn't mean that everything else isn't important. Certainly the disaster in the United States showed that certainly environmental concerns were equally as important, if not more important. So you have to ask BP those things, especially people in charge if that is possible. I'm not able to fully answer that question.

**SK: Okay that's fine. I pretty much feel that BP, from what I've read and what I've researched so far, I think that BP do place a strong emphasis relatively on environment issues, but that's all, of course, what they do in developed countries.**

**So you think that...**

GF: Well developed countries that put a lot of emphasis on climate change and carbon emissions. I think that the leaders should in part still consider, despite everything else that has happened, consider other things because they've managed to reduce their own operational emissions, to a much larger extent than any other oil company. But I mean, that was partly to answer to an audience in developed countries. Also the key thing to remember is the role of government. The government is the baseline of what is our means. My favourite example is the difference between Norway and Nigeria. If you avoid oil spills in Norway it's just complying with the law, if you do it in Nigeria it's considered CSR. So government is key to everything. It provides the definition of what CSR is, it's the baseline from where it starts. In developed countries, in the United States and in the UK you have to comply with the law. You have to avoid too many health and safety risks and so forth, and on top of that there's a share of BP that decided to tackle the climate change agenda. Whereas in developing nations, you know, you have very, very different priorities.

**SK: To how much extent, in your opinion, do you think that western oil firms, I'm using BP as an example here, but what do they do to transfer good corporate governance principles to developing countries, particularly to Africa?**

GF: What do you mean by good governance?

**SK: This is probably leading on to a later question, but ...**

GF: By corporate governance I mean organisation, so having a CSR compliment of corporate governance.

**SK: I was thinking more of things like promoting transparency. What I mean here is that the transfer of good business principles could be enhanced by collective action by oil multinationals. An example here is that BP a few years ago published their accounts in an attempt to build transparency in their dealings with Angola, and this promoted a very angry response in Angola and they even threatened to cancel BP's contracts, and no other firm published their accounts. So what I mean here is that can one firm really do much to promote the transfer unilaterally?**

GF: So when you – I mean we speak now specifically of transparency.

**SK: Yes transparency.**

GF: Well I mean we obviously know Angola and Azerbaijan will be like pioneering

something new. It didn't go very well and it's very, very clear that it will only work with collective action, and that hasn't happened, it's a long way from that.

**SK: So why is that then?**

GF: Well it's difficult to find consensus between companies and here you have free riders which can potentially benefit if some companies do it but others don't do it and so forth, there's a lot at stake, you could potentially enrage some actors, particularly host governments. You may have things too high yourself potentially, transferring transparency and other things. So what you potentially would need is something on the model of the mining sector with the mining associations, which obviously is not the case, at the moment really you only have the extractive industries transparency initiative which doesn't really go anywhere near enough. So there isn't much happening transparently as a sort of governance. Not just taking transparency but also organisational principles... there isn't really best practice. So I don't think there's anything emerging in terms of voluntary governance in a specific style that would be the most effective. Companies at headquarter level tend to have specific principles, but again it is open to question what is the best way or trying activities that could be seen as best practice amongst any commercial activities, certainly amongst British-based companies. But then again, you know, you can question if this is the most effective thing, but then more importantly how does it fare, running operations everywhere else where it matters. So I don't think in terms of corporate governance, including transparency, that there is much best practice established or implemented really.

**SK: So do you think that BP had anything to be gained by promoting transparency? Advanced reputation or protecting the brand?**

GF: Well I mean there was potentially a genuine willingness to come forward and to either respond to critics including groups like Global Witness or themselves to be more proactive and show that yes we are, for whatever reason, becoming more transparent. But this hasn't provided the best practice as an example to be followed by others or even to be continued by yourselves all around the world, so for whatever reason they did it, for whatever reasons it didn't work out, you know, it didn't provide an example for others to follow, or for BP.

**SK: Well when I said that it promoted an angry response from the Angolan authorities, it was Manuel Vincente who sent the very angry letter to BP. But he**

**sent the same letter to all the other oil companies operating in Angola. So do you think that might have been a bit of a scare tactic to stop other oil companies publishing their accounts?**

GF: Yeah, well I mean again that is an opinion. I think I can provide the best input to do with an overview of what companies actually do rather than, you know, the motivation. You only have to ask those actors what their motivation may have been, or how it was perceived by the companies themselves, you know and what they thought at the time.

**SK: Okay. Do you know anything about the Chinese firms going abroad?**

GF: Very little.

**SK: Very little. Well I mean we do know that the Chinese firms invest overseas with their guiding principle of no conditions attached. Obviously there's little in this to promote transferring governance principles to developing countries. It is your opinion I'm looking for here. My Director of Studies has clearly said it's okay to seek people's opinions. To how much extent would, in a Sub-Saharan African country, for example, would they prefer Chinese investment with no conditions attached rather than Western investment?**

GF: Who is they?

**SK: Well that's probably the key question.**

GF: Government?

**SK: I don't think just the government, I'd say also the people.**

GF: The population at large or local communities?

**SK: Local communities. Okay two questions, first of all the African host governments?**

GF: Well the governments would probably very much like Chinese investment. Whereas the Chinese do not maybe provide as many obstacles to certain things, I mean they do not come with the baggage of the West. But above all I think the Chinese, so what I'm trying to say I suppose, no strings attached to Chinese firms there. On the other hand we get lubricants to help Chinese firms get established, such as the government helping them and supporting them, offered as part of any contractual or non-contractual arrangements to get established. But as part of a deal you may have roads built or other infrastructure improved and so forth, and that certainly is very, I mean anyone, you know if this was a European country, you will find it very, very

sympathetic, you'd be very sympathetic yourself especially since there's a great need for these things in many countries. So if Chinese firms actually do invest they might have more chance of those roads and other infrastructure projects getting built. Sometimes you have loans to governments as part of those deals from the Chinese government and so forth, and on the other hand there's not the necessity to comply with certain rules that maybe, not just ones that foreign governments may have or companies may have, but from the International Monetary Fund and the World Bank, who would have less leverage in those countries as a result because money comes from a different source. So I mean it's more than natural for any government to prefer a Chinese competitor to a potentially Western one because of all of these advantages. It's also not totally unheard of... in the 1950s or the 1960s, there was a lot of grumbling amongst Western companies against AGIP because they were a new competitor and they were happy to accept less favourable deals in African countries such as Nigeria than other companies because they wanted to quickly get into the business market. So sometimes in business there is a problem of a new entrant. Any new entrants may change the rules again because they're quite cheap to get to it and it's not just the Chinese, the new entrants, but equally Indian, Korean, and Brazilian and so forth. So obviously that changes the rules of the game and makes it harder to compete for the same concessions and be offered the same fiscal terms and so forth. So I think it's just part of intensifying competition.

**SK: Do you think there's anything Western firms can do about that then? Because in that case they are going to lose out aren't they?**

GF: Well I mean it's up to them to up the game. I mean there are lots of things they can do from collaborating with those new entrants in investing in technologies, particularly offshore, and the Chinese often actually are not direct competitors because they are often merely interested in the financial stakes but not in operational control. So you can collaborate with them, you can offer other incentives to host governments like local content improvements... you help sub-contractors in those countries to transfer technology and so forth, to provide technology to the oil sector, being technical advisors, or even on the social and environmental front sometimes you may have to try and actually get recognition for being a good corporate citizen and being selected on phases where you provide the highest social and environmental standards. So this is

potentially a way forward to distinguish yourself and, certainly in the light of BP in the Gulf of Mexico, in the future there may be certain demands to have companies that distinguish themselves by being the best performers in the social and environmental agenda as well. So there's at least something we could do but obviously, you know, you're going to face the competition and there's going to be greater competition for a smaller piece of the cake.

**SK: Okay, well how about the African people then? How would they benefit from Chinese investment?**

GF: It is still to be seen and could be a very, very different response depending on who you are.

**SK: Well I'll give you an example actually. A Nigerian I have interviewed suggested there was a honeymoon period for Chinese investment, and that may actually be over. I gave him the example of Zambia. This was not to do with the oil and gas sector but the mining sector. There was somebody who went for the presidency a few years ago in the Zambian elections and he campaigned on an anti-Chinese sentiment. He didn't win the presidency but he established himself as a political force in the mining areas very much on this anti-Chinese sentiment, with all of the complaints that the Chinese were bringing their own labour, for example.**

GF: Yeah, I mean let's go one step back. Chinese firms operate in the same business environment as Western firms, Brazilian firms, Indian firms, that's not any different, the rules of the game are very similar. The only thing that potentially maybe different is that there is a history of better experiences with some Western companies, although Shell in Nigeria was a problem and because of that people may have been very antagonistic against Shell specifically, and all British firms or whoever as a result of those experiences and because of that potentially they could welcome Chinese firms initially.

**SK: Do you think there could be a colonial legacy there as well?**

GF: Yes. So that's what I mean by history and path dependence. But other than that, assuming this is the case certainly for countries where you are only starting, you still have the same constraints, so the Chinese firms just like the Brazilian firms, Indian firms or Western firms will have the same complaints from other communities about, as you said, not employing local labour... finding enough jobs, in terms of not keeping to promises, in terms of polluting and doing various other things, not investing in the

communities where the oil comes from and a lot of people not benefiting from those activities and so forth. Chinese firms like any other firms will face the same constraints and they may have the same problems in Nigeria and other places. Chinese managers, I think effectively have the same sort of problems of legitimacy and licence to operate as other firms. You always have liability of foreignness as a multinational firm. So just because you're Chinese it doesn't necessarily mean that you'll have a much nicer ride, maybe at the beginning when people don't know you, but eventually there is a liability of foreignness. A lot of firms will transgress. The foreign firm will transgress and it's always the foreign firms that will take a lot more rides anywhere in the world whether you are a Chinese firm in Africa or whether you are an African or Western firm in China. So there's a few reasons for me to explain why the international firms always pay a lot more lip service to CSR and try to do something about it because they're forced to. When you become international you are much more in the public eye, you're much more open to criticism. You are looked at, in much more detail, at what you're doing and you have to be a lot more careful. So I'm sure Chinese managers are grappling with the same question as British or American or Brazilian managers... how to deal with those social and environmental challenges.

**SK: Do you think Western firms may have a certain advantage in this? What I mean here is that I have researched the long history of BP and they had a very early social issue. We are talking here about the early years of the 20<sup>th</sup> century when there were still Anglo Persian and/or Anglo Iranian. In Iran there were complaints that they weren't employing enough locals, and even if they weren't employing expatriate Brits, they were employing Ottoman Turks. The company said that Iranians didn't work hard enough. But they learnt from this experience and eventually, they went on to train local Iranians through links they had with Tehran University. So do you think that such experience of knowing that you have to employ locals, and they've had a long history of knowing that they really have to do something for their locals, do you think that such experience might give them an advantage?**

GF: Well obviously production in BP has been faced with those changes for a lot longer, certainly when you go back to the days of Anglo Persian and Anglo Iranian, but certainly the last few years a lot of content requirements seem to be getting potentially

or becoming potentially more and more important issue recently in Nigeria, Ghana, just this year. There have been attempts to impose new laws related to a lot of content. The regional government I think of Rio De Janeiro was threatening companies with throwing them out even though in Brazil local content is much, much higher, and still it was pushed to do that. So this is certainly going to be an issue for the Chinese firms because they would be more traditional in using their own labour. So from that point of view, Shell or BP, you could think yes they are in a little bit better position, they've been thinking about it for longer and maybe they have a few skills. But then they still have a lot of trouble doing that, complying with the criteria and they find it very, very challenging. In the case of Angola and Nigeria there is a shortage of expertise in certain areas to comply with that. So they still have problems, not so great but it is a big challenge and a lot less of a challenge in Brazil than in Angola. So that's one thing, and the second one is that potentially Chinese firms could, if it's just a formal requirement, it will be accepted by the government because it provides other incentives. So I don't think it's a clear case that Shell and BP are in much better positions, but Chinese firms have a major contractual advantage, this is very, very clear.

**SK: Okay, this is the key question to finish on. To how much extent, in your opinion, do oil multinationals use CSR strategically? I will explain what I mean, which is do oil multinationals use their CSR strategy strategically to seal deals? Have you heard of the work of Wiig and Kolstad?**

GF: No I haven't.

**SK: They are at the University of Bergen, and they examined the responsibilities of multinational oil firms actually in Angola, which is quite a coincidence because I chose Angola as my case study before I discovered this work. Angola, as you probably know, is plagued by poverty and corruption, which are basically the consequence of the resource curse. Wiig and Kolstad argued that the lifting the resource curse placed an emphasis on improving governance in Angola and on improving the country's institutions. In the absence of any government commitment in this area an ethical argument can be made that multinational oil firms should attempt to transfer sound governance principles, a rather normative statement of course. But their research found that transferring governance is not a priority in the CSR policies of oil multinationals. They found generally that CSR is**

**used strategically to obtain licences to operate, as simple as that. Therefore, do you agree with their opinion?**

GF: I think there's a lot of interpretation concerning this question. What I would think about strategically first of all is headquarters using them for specific purposes in some structured way and I think that only happens probably most of the time. I potentially think the problem surrounding John Browne at BP and bringing in Beyond Petroleum, it was a time of change, so I think that was potentially a strategic move. It was a strategic move... what's happening is to benefit... to get certain advantages of being a pioneer in certain areas and being seen as a force and so forth. Then in terms of actually getting some specific licences so going to the level of specific countries and subsidiaries, there's certainly been some of it and in my book you have some examples as well. ChevronTexaco in Angola is one example and a few other places that it is certainly the case that it's been used strategically. I think the key question is how important it is, certainly in terms of getting the government to pay as much emphasis towards either secondary or tertiary or whatever, is important to get licences. But it's clearly yes at a subsidiary level of countries certainly yes companies have to use it strategically to ensure... usually it's been spending on social investment in general or on a specific government-favoured social fund. So certainly companies are trying to get an advantage in some way and some companies are certainly keenly aware that this sort of activity offers an advantage, but I think it's still haphazard in terms of how companies organise it, but I think some companies are certainly keenly aware that this protection is a key advantage. Probably leave it at that.

**SK: Yes, okay. Well thank you very much.**

GF: Thank you.

## **Appendix 12.**

### **Semi-Structured Interview with Doctor Gbola Gbadamosi of the University of Worcester Business School, 30<sup>th</sup> September, 2010.**

**Key:**

**SK: Steven Kort (interviewer)**

GG: Gbola Gbadamosi (interviewee)

**SK: So shall we explore the institutional environment to start with? So can you tell me about the institutional environment in Africa? What I'm after here is the fact that Angola is considered to be a very institutionally poor environment and it's one of the most corrupt countries in the world. So would you say it is actually representative of Africa?**

GG: The problem is sub-Saharan Africa is a very, very corrupt area and-

**SK: Probably a better question would be of oil-producing countries in Africa?**

GG: To a very large extent then I would say yes. Much of what you will find in Angola is typical of what is likely to be the scenario in most of sub-Saharan Africa involved in oil production. Because there'll be very few really: Gabon, Nigeria, Ghana is joining in now very soon, and much of them will have similar problems of poverty, of poor infrastructure and lack of institutional support for businesses, and so on. It's just that Angola specifically has been a country having been ravaged by war for over thirty years and it's very different, it's very unique in its own way, and until lately we've kind of grown into thinking in the public domain about what will transpire in the oil sector. I think that's becoming a little clearer now with the end of the war, and a lot more effort at making the country into a more habitable country and friendly to foreigners and investors.

**SK: So how do you think, say, if a firm is investing, they have to deal with the institutional environment. Therefore, is there anything they can do to try and influence and/or improve the institutional environment?**

GG: I think most organisations that work in that part of the world are very clear how they can deal with the environment. I think most of the time, in my opinion, it's just about the will. It is the will to do it or the constraint, the governmental constraint, because of the institutional high level of corruption that we have in the system, which

make a kind of guide, an organisational way to move along a different path to make sure that a lot more of the funds gets into the pockets of private individuals at the end of the day, and that is an unfortunate fact of the case. But, having said that, the reality of it is when a multi-national, a big organisation, gets into countries in sub-Saharan Africa who have anything to do with oil or any of that kind of mineral resource are usually confronted head-on immediately by a basically poor infrastructural environment. You will see a lot of poverty and so on, and you barely see how you can make the life of the immediate environment in which you are going to operate better without costing a lot of money. But I suppose one of the issues would be... well if, as an organisation, we pay so much tax, or we have to pay so much tax to the government, and it is not our responsibility to do that, why should we be then putting a lot more of our resources in getting the environment right? I think that is one of the questions that organisations should probably be asking at the beginning. You know, they want to be sure that they get it right from the beginning. But certainly, to answer your question in a simple way, I think there is so much companies can do in sub-Saharan Africa in terms of improving the state of the environment, the institutional environment within which we find ourselves.

**SK: How do you think it'll work? Because you might be able to confirm something for me actually. Because I've got an Angolan contact that Howard and I have decided to use an advisory role, pretty much like a supervisory team here, and he's told me about transparency. The oil firms investing in Angola, they are supposed to pay their taxes directly to the Angolan Treasury and then that creates a lack of transparency, because in fact, the revenues do not go directly to the Angolan Treasury?**

GG: Where does it go to?

**SK: Sonangol handles all such payments and they don't actually pass them through the Angolan Central Bank that Angola's law actually requires. They flagrantly break the law. Instead all the payments pass through the bank accounts of Sonangol's foreign subsidiaries, places like the Cayman Islands and Jersey. So when the payments actually do finally reach the Angolan Treasury they're always later or usually much less than expected. I mean, for example, he said that he knows somebody who used to work for Sonangol and, considering his salary, how**

**can he afford an expensive villa in South Africa for his family to holiday in? So that's an example of where it all goes.**

GG: Yes. This is why I said the case with Angola is quite peculiar. Although there are problems of corruption, but it's the entire spectrum of the African continent, particularly in sub-Saharan Africa. But, having said that, the kind of scenario you just described now, I haven't heard about that happening anywhere else.

**SK: Really?**

GG: Yes. Because this is kind of very blatant, you know, very open way of channelling of public resources through other channels.

**SK: Do you think it could be in fact that Sonangol is actually a state-owned enterprise? Do you think that might have some relevance, where they work for the government, let's say, and yet they still get away with not passing things on to the central bank?**

GG: Yes, I think probably-

**SK: The fact that they're state-owned rather than privately owned?**

GG: My concern actually would be that it shouldn't really matter whether it's a government or an enterprise. You would expect that even the Government of China should be concerned about the general development of a poor country like Angola, and therefore everything that has got to be done has got to be done properly and transparently.

**SK: Well in your opinion then, do you think that China are actually considering the development issues in Angola when they're investing there? Or throughout Africa in fact?**

GG: Much as I don't have any-

**SK: Can they be seen as a development partner?**

GG: I understand. Much as I don't have any evidence for this, but the evidence on the ground doesn't reveal that. I couldn't say that's the case, but the evidence on the ground doesn't reveal that. How justified would we be to say that the Chinese Government can be concerned about development issues in Angola if the issues of the fundamental resources that have been offered to the people of Angola is not going directly to the coffers of Angola, and it has to go to some other machinery or some other process, we find difficulties along the way. So we really want to be conscious in terms of that. I'm

not sure. I think primarily, for now, it would appear to me that it's a lot more important for the Chinese Government to get an effective... their two feet on the ground to feel that they're really strong on the ground, to feel that they really have captured that particular market, and they have become almost like a monopoly, if you like, before... maybe issues of a development and the Angolan people will begin to come up with a second segment of the agenda. It is not impossible that behind it in their mind now is the issue of competition first. You know, that there are other potential competitors that will take this potential in a good market. So it's better we put our foot in there, make sure everybody that takes decisions is happy, and then when it's gets really in they can get on to the next stage of focusing on the Angolan people. I'm not talking for them, but-

**SK: But it may happen, yes?**

GG: Yeah, that may happen, but it's-

**SK: My Angolan contact actually says that. He actually thinks the Chinese for now are in Africa for themselves. They want to... I mean, they're building infrastructure, yes, but it's infrastructure that's conveniently helped them get the oil out of Africa.**

GG: Yes. For example, they have tried so much in Nigeria but they haven't been able to get a very strong hold on the oil business in Nigeria. But now you could see that everywhere, including pipelining in the oil business now, which is giving them some kind of leverage to get them to do business. And you will find that in terms of transportation, the haulage business, the construction, and particularly in the railways. There's just roadworks everywhere in Nigeria now, and they're getting stronger. So it's pretty much competition, expansion. Africa has a very good business ground, a vast potential for the future in terms of developing business opportunities, and it is that prospect that I think they are trying to explore and maximise, and it's an advantage for them for now and for the future. Granted, you know, the background I believe is that there are a number of sub-Saharan Africans who are not very happy with the existing-.

**SK: The existing status quo?**

GG: Yeah, status quo. So we are happily clamouring for a change. So anything that will provide an alternative is better tested to see whether I can walk or not. So they are in a clearly advantageous position, as it were, the Chinese businesses and the Government of

China. And I think that's what they really are capitalising on over the continent and a special advantage in Angola.

**SK: So do you think the Chinese are delivering? Well, they said they're probably not delivering now but they may do in the future. My Angolan contact has actually said that the Chinese are only really offering... they're building the infrastructure to pretty much seal the deals, to seal the exploration or the drilling deals, and when it comes to actually delivering on them, they do to a certain extent.**

GG: Yes.

**SK: I think two writers from Norway wrote about this, from the University of Bergen. They said firms only consider CSR in Africa, in their opinion, pretty much as a way to seal deals. They say, "Yes, we're going to do this," but then they don't necessarily deliver it in the way that they said they would when they actually signed the deals.**

GG: Yeah, that is obviously not impossible, that is actually likely to be... you know, it's an area that will work well for most African business people. I would not doubt the fact that many of the business contacts and links that Chinese businesses will have in Africa will naturally suggest very nice CSR programmes that it will venture into as a way of getting interest, getting support, getting sympathy and getting on the ground, and getting all kind of support on the ground. But I'm not sure the extent to which when they are on the ground they will really want to do that. Even if they had planned to do that really at the back of their mind, by the time they are confronted often times with the sheer size of financial requests of the greedy African collaborators, they probably would begin to think differently about how much money should be now be going to the CSR if this is much more than the planned expenditure required our so-called happiness and our needs. And I think pretty much that's the way it works for most of the continent, and that is why the case of Botswana is actually very, very unique. Because that opportunity is not there at all. That middle contact, that kind of leakage has been taken out completely. Everything is De Beers. De Beers, the big diamond company. They take charge of everything and the modality of sharing.

**SK: How did that come about then?**

GG: I wouldn't know. If I say I know, I would be lying. I wouldn't know. But what is clear is that the various problems in other African countries, must have been factored in.

At the beginning when diamonds were discovered in Botswana, most of this was factored in the thinking of the government one signature at a time, to say, “Well let’s rid ourself of all the bureaucracy. Let’s rid ourself of the potential distrust and disharmony that will form in our people. Let’s trust this resource with people who have been doing only this forever and therefore let’s give them access to this material, and let’s agree up front on how it’s going to be shared. That way we can just collect our share and develop our country with it.” And I think that’s worked pretty much for them. And perhaps one of the reasons why-

**SK: What I understand is Botswana has got very high standards of governance.**

GG: Yeah. But part of the reasons why they have been listed on the corruption index is because really they don’t try to control corruption. I think the effort is to prevent corruption. So you take away all the potential avenues that could make people corrupt. If people don’t have decisions to make about whether, “do we give this particular component of land with diamonds to John or to Howard or to Gbola?”. If it’s been settled that all of this goes to Michael, it’s Michael that gets everything, so nobody needs to talk to Paul or Howard or yourself to say, “well if I give you a little bit of something decent, would you be willing to save a little bit for Michael?” That can’t be done for them. And I think that works pretty much for them compared with other African countries, in terms of minimising all those elements of corruption that has tended to hinder the development process in these countries, and I think that it’s lessening there. Much as personally I’m not happy with it, as I don’t think they’re getting the best deal, in terms of the percentage that they get off De Beers. But it’s pretty much enough to develop their country, and if it’s because it allowed them an opportunity to be much more egalitarian than other countries, and if it has helped them to minimise the level of corruption and access to public funds being diverted to private pockets, then it isn’t.

**SK: Well exactly. Do you think that’s a model that that could be practised throughout Africa?**

GG: Yes. It is good on that basis. On that basis it’s good.

**SK: Well I think we’ve covered the institutional environment; we’ve done a bit on transparency as well, which is good. So can you tell me about cultural issues in Sub-Saharan Africa? I think what I’m after here is are there any cultural issues**

**that may affect how corporate responsibility is perceived in Africa? Probably a very open-ended question, but-**

GG: It is an open-ended question, but it's one question where you are likely to have a rich pool of information. Because, you know, culture itself is very, very broad. Much as it is broad, it is also somewhat specific. Again, as always, it's a double-edged sword, as they say. So with culture I think there are a number of issues that leans on culture with the transparency now we've talked about. That leans with the issue of use of public funds. Maybe it's development issues as well, and so on. Some parts of Africa are very hierarchical in class. There are some other cultures in Africa that are very... extremely actually... egalitarian in the way they are organised.

**SK: Can you give me some examples?**

GG: Yes, in terms of the ones that I know. You see, if I go back to Nigeria, which I'm much more familiar with, then I will compare that with Southern African, like Swaziland or Botswana, South Africa, all of which I've lived in and am also familiar with. You will find that, for example, amongst the Ibo in Nigeria. They are very, very egalitarian. Almost everyone is equal. They don't have kings, there is no... they don't have kings, they don't have... communities are ruled by a number of elders, as a group of elders. You know, twenty, thirty, depending what number. It's about their age because they believe that people become wiser as they get older so these are the people who take positions. Because experience, they say, is the best teacher so they're going to learn a lot of things from their experiences. So you'll find that they are very communal in everything. They build houses by collective effort, they till their farm by... everything's by collective effort. So they tend to be, originally, less competitive. All of that has changed as a result of Westernisation. They, the same people I'm talking about, are becoming a lot more competitive now like they used to. But amongst the workers in Nigeria, for example, you will find that those are the groups of people where society is a lot more Westernised. You know, the wealthy or the very poor, you know, who are collecting... they are down there, and who think the only way they can cross the barrier is through education which is why they invest a lot of their money on education. But if we link this back to our discussion, which is the influence of culture in all of these multi-nationals investing in Africa, I think there are a number of things that will become problematic to an average business investor in Africa. Let's take the issue of... I'll use

specific examples to highlight my point. The issue of gifts. Culturally gifts are not indecent, they are not corruption in much of Africa. It's a sign of showing affection, of showing love. It's a sign of showing respect to people. And you don't turn it down because you're suspicious of... you think you are being bribed. The person's offering... so in much of Africa the person offering gifts what has not been solicited for, you know, but he's doing it out of affection, the rejection is the rejection of affection, which throws some spanner into the works and brings about some kind of suspicion. So that actually could be a problem.

**SK: So do you think that's why Chinese investment might be looked upon as being very welcome, because of the culture in China they're very used to giving gifts? You know, the guanxi culture? When you're doing business deals, it is normal to give gifts, but it's not seen as corruption.**

GG: Absolutely. Yes.

**SK: Here in the West it is.**

GG: Yeah. So you'll find that people tend to... well let's say when they visit the community. You've just come in, you've just had an oil block in an area. There's a community living around there and you've gone to visit the head of the community, let's say the king of the community, whatever name they call it, and you've gone there to do that. Ideally you take a little gift. Right? In return you always will get gift back. You could be giving yourself your own first or do it that way, but definitely when you visit a community as a new person in most of Africa they will welcome you with some kind of gift. What has changed, in my mind, in my opinion, is that those gifts used to be symbolic gifts. They used to be, you know, nothing that would cost an arm and a leg. But now it's all about opening a Swiss account. You see? Which is quite different. It's now about opening an account in some island somewhere where this money's a very big amount. You know, or where you would put in and pull out money. That's not the way, you know, culturally it has been. So even Africans recognise clearly that this is no longer a gift, this is a corrupt practice.

**SK: It's a corrupt practice, yes.**

GG: Yeah. So the idea of a gift would be you taking in... you go into to that community, you're taking in drinks, you're taking in pictures, you're taking in, you know, those kind of basic things, as an exchange of your love and affection.

**SK: So can you also say that even the Chinese coming in and saying, “well we’re going to build hospitals and schools for you, and infrastructure,” even the Africans may possibly recognise that’s not a gift, that’s complementary investment?**

GG: I think that is different. I think what is happening there is that... you see, in a community where Shell has operated for a very, very long time. We had Chevron-Texaco also for a very very long time. We had BP for a very, very long time. And you’ll find that even though the community has a population of about 150,000 people, they have a very poor school where everyone has to then sit on the floor and so on. And they’ve watched and waited and hoped that this oil company will do something to help their school or help their hospital, and nothing has happened. Right, the Chinese didn’t just wake up in China to take the business to that community. Most often they have inside information from people who live in that community, in terms of what we will offer to them, and they will have been told, “yeah, we’d like a new school, come and have a look yourself. Our hospital’s a hovel, come and have a look yourself. Our roads are not motorable, come and have a look yourself.” And then you come and you look, “how much is all of that going to cost?” “That’s going to be £100,000.” “That’s it?” “That’s it.” “Okay, we can do that.” So on the initial visit, when you come in to say, “we can do that,” before they even start business, what do you expect from the community? They’re not going to turn that down. They’ll say, “well the man who has been doing business there for a very long time has not put anything on the ground. This person is just hoping to start and he’s already offered us all of this. If we’re getting half of those, that would be something to start with.” So that could be an issue, a potential issue. So most of the time I don’t think it is the brilliance of the Chinese, these are all inside information about the privation of the people. But, having said that, I’m very conscious of the fact that... see, in CSR, businesses have a responsibility to develop the communities in which they operate and contribute there and so on and so forth. Businesses learn from experience over time. Sometimes they have paid special taxes on this community so that the infrastructure that I was talking about can be put in place, but this money has been diverted to some other purposes. Or sometimes it is the leadership of this community that has had one on one discussion with the management of this multi-national to physically say, “I will talk to my community, they would be happy, but don’t come build a school, give me the money, I know who to give. As long as

everybody's happy, you shall be happy.'"

**SK: Do you think a Western firm then... I can think of examples specifically here, but do you think they have a lot of experience of doing that? Because I know that BP used to be originally Anglo-Persian then Anglo-Iranian Oil before they were BP. I think after numerous revolutions it was all nationalised. But they were specifically in Abadan in Iran which is right on the coast by Iraq and Kuwait. I know that they are heavily involved there. But they pretty much learnt a lot of social issues, but they learnt from experience. When they first went in there, they didn't really do much but they actually learnt from their experience what to do and in the end they ended up building hospitals and schools for their employees. But they learnt from experience and they were doing that back in the thirties. I know that the International Labour Office wrote about what BP was doing in Abadan in the 1950s. They said that the hospital was very impressive. What they did for the local community was very impressive. So do you think a Western firm might have more experience in implementing those sorts of things as compared to a Chinese firm?**

GG: Well it's the... that's spot on, that's the correct thing to say. I think they have a lot more experience in doing it. Plus, given the background of the West and the development that is on the ground here which has evolved over the years, they know what's the best sort of thing to put in a school. How to minimise cost in schools, the best equipment to put in hospitals, how to minimise costs in hospitals. All of these have evolved over the years in these communities, in this environment, in the Western world, and I don't think the Chinese can claim as much expertise in all of this as the Western communities. And that is why Shell will fight, for example, it will be a difficult task for them to be able to regain their old glorious name in Nigeria, no matter what they do. See because, having had their hands soiled, you know, you find that Texaco... sorry, particularly Chevron-Texaco-

**SK: They're the company that's had the most experience in Angola actually, Chevron-Texaco.**

GG: You see interestingly, they're the ones, in my opinion, from what I know on the ground... I have visited most of oil producing areas in Nigeria, and I can tell you from what I know, they're the ones who have warmed most significantly and impressively to

the rural and local population in the communities where they operate. Because what they have done is, irrespective of the amount of tax that they pay to government, which they should pay really, they have identified those developmental issues as very basic to that community. They have recognised the fact that if the communities are happy, they will be supportive of them, and that's why you hardly read about problems of Chevron-Texaco being attacked and so on in Nigeria. Very rarely. Because-

**SK: And they've been doing this for a long time?**

GG: For a long time. So you'll find that on the ground they'll look at the community. You see, in Africa people don't want... they don't a listed building, they don't want... they don't want that kind of listed building, they just want a building. They just want, you know, a rectangular building, where there are enough classrooms, classes, windows, two toilets, and that's it.

**SK: They wouldn't want a show-piece building, would you say?**

GG: No, they are not keen about that.

**SK: Because I heard the Chinese in Luanda, the capital of Angola, are building a very, very nice shiny skyscraper made of gold glass. It's going be the tallest building in Angola, and this is going be the centre of Chinese investment in Angola. It's intended to be a show-piece statement of intent. Do the Africans really want something like that?**

GG: Well they do.

**SK: A statement like that?**

GG: Yeah, they do in their cities.

**SK: In the cities?**

GG: Yes, but not in their rural communities where most of the business operations take place if you are in exploration. Now, of course, in the cities people do want that, they don't mind to have that, you know, they want to identify with that. But what... if I go back to Chevron-Texaco, what they have done and what they've done for the people, is that people could in different communities say, "well I have been able to get my kids to school, a good school, thanks to Chevron-Texaco and, as a plus, as they put the building in place, put the hospitals in place, it also empowers the local community people to be able to find places to work, for examples as cleaners. They probably go and train to be teachers, and so on and so forth. And they give scholarships to this community. So, you

know you'll find that they get some level of education and they are able to then work in their community like that they would want to work. Perhaps when we get to the other issues of environment, I'll be able to point out some other things about that. But culturally there are significant issues of culture that affect businesses in much of Africa. It is just that most of the corrupt leaders in Africa hide under that culture.

**SK: I think that brings us nicely on to further social issues here. Can you tell me anything more about social issues? What I'm after here, tying in with the environment, the relative importance of social issues versus environmental issues in the whole sphere of corporate responsibility. Specifically for social issues, the sort of thing I'm after here is my Angolan contact has told me in Angola's oil industry there's very little linkage with the rest of the economy, only with the use of revenues. But, more specifically, he said certainly Chinese investment... he said Western investment as well, but particularly the Chinese investment creates very few local jobs, and therefore very few local people benefit, in his opinion. It would be interesting to see what you say about that. He did say this could be partially explained by the capital-intensive nature of the business. Of course it's a very specialised sector, isn't it, oil? So therefore, can you comment about this social issue? For example, can foreign firms do more to create local jobs?**

GG: Yeah, that's an interesting one. When people talk about the prospect of Chinese business in Africa I always alert people to this social issue, in terms of gainful employment to everybody and winning assistance of these communities. But in my experience and my opinion, the Chinese are not exactly very interested in that. I might be wrong but what I've witnessed around Africa is that I've seen Chinese businesses and so on, they are not very very keen about the employment issues there. In the past Africans used to blame the Western businesses for bringing in too many Western expatriates.

**SK: But do you think over time Western businesses got better at this?**

GG: Over time Western businesses empowered the people, trained them in a way to ensure that... they completely handed over a significant part of running many operations to citizens who trained locally or even came to this part of the world to train.

**SK: Well certainly when BP was in Iran they were initially often complained about. They would employ very few locals and in fact if they were employing... I**

**should say if they were employing Muslims at all, they would employ Ottoman Turks. But over time they began to employ more locals. However, the British were quite imperialistic at first and they said that Iranians don't work hard, so all the top jobs were taken by expatriates, but over time they seemed to put in the course a process of employing locals, and subsequently they implemented it around the world. Perhaps they are saying now, "yes, Africans can work, we can use them."**

GG: But that's not exactly what I've seen the Chinese doing. You see? Relative to what we know on the ground, if I... I mean, I can say that China seems to be a lot more interested in bringing in their own people, even to do most elementary kind of job that any fool probably would be able to do, who is given the right tools and equipment. So you'll find that when the Chinese businesses come into Africa they ship in the money, they ship in the equipment, and they ship in the people as well. Nearly everyone comes along. And if you listed the number of Chinese activities in most of Africa, you will always find an interesting balance of anything from 60%/70% Chinese to as little as 5% locals in some... you know, it is that bad in some businesses. And I know businesses in Nigeria that is 100% Chinese, and there is nothing actually that they do which they will not find Nigerians are able to do. But, because of the government's interest in the FDI, they've kind of modified the law to allow 100% foreign ownership and foreign employees, if you want, and that flexibility allows some of the Chinese to come in 100%, you know. I don't know how it is in Angola in terms of the government labour law and who comes into the country to work, but in the middle and long term I see the prospect of a conflict between the Sub-Saharan African people and the sheer size of the Chinese expatriates, if I can say that, on the businesses on the ground. You see, some people say they are in their honeymoon period now when, you know, we just want someone else for the competition. You know, not just the West. But it will always be... it will not always be like this. You know, it will get to the point where they'll say, "well even the British and the Americans have more locals than you have now. Soon you will have to get your act together." You know, "You've gotta do things differently." I see that developing over time.

**SK: So would you say at the moment then, in that case, here I will make a statement to see whether you agree with it. The only people that really benefit from the Chinese investment are the African elites, not the people, in the current status**

**quo.**

GG: It's very dangerous to make that statement because it will depend on the sector of the person that we are talking about. See, in the transportation sector, and they are working very hard on trains in most of Africa, and moving people from point A to point B locally in big cities in Africa. This has been a massive developmental issue in Africa. It's been at the pain of all the social problems that many African countries have, in a number of big cities. The Chinese are turning that around, literally. And-

**SK: Indeed, they are planning to build a cross-continental railway from Angola right over to the East coast of Africa.**

GG: Yeah. So that would be in the interest of the people. And so, you know. But when you talk about businesses like the oil sector, like the mining, and all of the problems in mining, I'm not sure the African people are benefitting anything from that sort of businesses. I think, like I say, it's largely for now the elite and the government, officials of bureaucracy, and everything has been sunk in there, and everything has been lost in there. You know, it's not going down the channel to the people yet from those type of businesses. But road construction, all which businesses, transportation, you know, in terms of locally trains, I think the people are benefitting, so it's some kind of balance. One has to choose which sector one is talking about specifically and in Angola, I am not sure to what extent the Chinese are involved in construction. Roads, trains, I mean railways-

**SK: They are building a lot of that infrastructure, because of course, Angola's infrastructure was destroyed in the long civil war,-**

GG: Yes of course.

**SK: - but they are stepping in and building a lot. My Angolan contact said it's amazing sometimes when you go out of Luanda. You can go down a dirt track, and two weeks later there's a concrete road there. The Chinese have just built it and they have moved on and they are building another road somewhere else.**

GG: That's good. That's why I said-

**SK: The people can benefit from that?**

GG: Absolutely. Because in my five years of living in this country and one of the most fascinating things I have noted is that of the road network going to most parts of this country. As a Nigerian, you know, a big country, you make sure... the kind of research

work I've done while in Nigeria and some other things that I've been involved in, in terms of developmental issues, I have been able to travel every corner of that country. And I know how painful it can be sometimes when you leave cities and you leave towns, like you want to go into villages, it can be a very, very difficult exercise in some areas, because most of the time they don't have any drainage, you know. I mean this month somebody has put some kind of surfacing on the road but no drainage and, because of the terrain, the rain comes and all of this gets washed off and the erosion creates big gullies that would always drown a car. So it is that bad, you know, moving around in Africa, around Sub-Saharan Africa. So when... I mean, if indeed the Chinese are being involved in putting up roads and constructing concrete roads and so on to link up rural areas with the city it will be very, very beneficial for the people. Much of the movement from the rural areas to the city congests the city. The cities are not planned, you know, to take, you know, for the inflow of people that keep coming in. So when that keeps happening it creates a kind of very big problem. And the reason why I've raised it, is the fact that much of these people in African cities will be very, very happy to remain in the rural areas if they were sure they would have access to the city, they would have access to... will be able to come to the city when they need to come to the city, and they know that if they want to, drive in their goods from their farms into the city, they can do that to make more money.

**SK: They can commute and it's made them more mobile.**

GG: Exactly. But that is what most of the African governments have not done. You see? So they concentrate the money in developing the cities as a showcase for foreign visitors, for investors and so on who say, "oh were you in Cairo? Oh it's a very nice place." "Did you go to Johannesburg? Oh it's really beautiful." "Oh you were in Lagos. It's really very nice." That's the way it is. But the people know... the citizens of these countries know that when they leave all these big fanciful cities it's a nightmare going to their villages.

**SK: It's even like that in South Africa?**

GG: Well it's a lot better in South Africa.

**SK: I would imagine that it would be.**

GG: It's a lot better in South Africa. I mean, because I have travelled almost every part of South Africa by road. I have driven on many roads twelve hours, eleven hours. You

know, most times, you know, and they're all very good roads. It's incomparable to the rest of Africa in terms of the road network. The reason being that the farmers, the Boers, who developed South Africa had to transport their goods to the cities. So that's the reason. And the rest of Africa is largely... the majority of people are farmers, but they are subsistence farmers.

**SK: Well yes, subsistence farmers. Do you think also... South Africa does have a very long history of mining, doesn't it? Is it also the necessity of transporting machinery to and materials from the mining sector? Considering Anglo-American here, they have been there for a very long time. South Africa apart, I would say that Sub-Saharan Africa has only relatively recently been involved in extensive mining. I'm just thinking the road network might be better in South Africa because they've had a longer history of resource extraction.**

GG: They have, yeah. I mean, it's like a hundred years, maybe more. You know, it's been there forever. And they have the advantage of having nearly all the natural mineral resources you can think about. They have diamonds, they have gold, they have all the other things. You know, they have nearly everything and they take advantage of all of those things, plus their agriculture is really recognised and therefore they need to have an appropriate network to lead to the different parts of the country. It's an endowed country, you know, to a very large extent, and I think, much as we all condemn apartheid, with the measure of development that they have put in place which, without sounding condescending, you know, I'm not sure if the current African leaders, if they were in that place eighty years ago, one hundred years ago or forty years ago, I'm not sure they would have had the same speed of development and infrastructure that we have seen put in place, I'm not sure. I can't vouch for that, I'm not sure.

**SK: To move on, I think it would be a good idea to close with environmental issues. So can you tell me about environmental issues, general environmental issues in Africa? I mean, are they relatively important compared to social issues? My Angolan contact has told me, to give you an example, in Angola's oil industry, most of the exploration and drilling is off-shore in Cabinda, which is an enclave that's surrounded by the DRC.**

GG: They are very lucky.

**SK: Arguably. But this off-shore production area does create a lot of concern**

**about the possibility of polluting rich fishing resources. He said, particularly in the light of the oil spill in the Gulf of Mexico, that coastline, along that border, is one of the richest fishing areas in Africa. Local fishermen often lose their ability to fish there, and they receive no compensation. So therefore do you think environmental issues are considered important considering that example?**

GG: That's the one part of your research that I have read of passionately. I have a bit of passion for this because I have seen it firsthand and I know that it is a real issue, it's a real issue. And I will start by giving you a very quick example, and a very quick background information about this. In Nigeria environmental issues... if you ask the average citizen, you know, in the oil prospecting areas they will tell you eighteen, twenty years ago, thirty years ago, they'll probably tell you, "what does that mean?" They probably wouldn't have a clue what you were talking about. But today, in the last ten years, it is the only issue that is important to people who live in these communities.

**SK: Really?**

GG: Nothing else is important. And that is-

**SK: That is very interesting.**

GG: Yes. That's the background information. The second information that I'll point out to you here is that the Gulf of Mexico issue was a big deal, it was all in the news. You know? Obama had to go into the water to go and have a little swim with the daughter to tell us, "It's all fine now," you know. "BP are very good people," you know, "you can come and have a swim." Nevertheless, having said that, really what has happened with the Gulf of Mexico for the last how many months, you know, just this year, is what has been going on in Nigeria for about twenty five years. So you can imagine what made so much news in the Gulf of Mexico just within a couple of months it was on all the news. But this is an everyday activity problem in Nigeria for the last twenty five years. It's not in the news! So when the average man on the streets of Southern Nigeria who lives in this area sees the Gulf of Mexico incident he says, "that's what I see in the back of my house every day! What is this all about?" And I'm not being cynical. I'm not being cynical. I'm being very very frank. As a Nigerian, I have visited the oil producing areas of Nigeria, and I have seen it firsthand. You see, the people who live in that part of the country, unlike Angola, where everything is off-shore-

**SK: Mainly off-shore.**

GG: Mainly off-shore, yes. In Nigeria it is fifty-fifty, both on-shore and off-shore, and much of the coast has villages and cities, i.e. inhabited by people who live on fishing. That's the only thing they know how to do. They grow up knowing how to fish. They don't know any other trade. In some of the communities they actually do not have land, they live on top of the water, they create rafts and put bamboo sticks and build the house there, and they have their canal around it, and that's where they live, that's where they live all their life. That's where they bring up their children. So what has happened is that all of a sudden somebody comes in there with a ship and they're drilling oil there, and within a couple of days the whole place is... you know, they have oil spilling everywhere. So the entire community have to evacuate. They can't do any fishing as there are no fishes there anymore. Now, because they don't have land, they become very, very poor. Those of them who are not into fishing, who are on the edges of the land there, the spillage comes there and kills all of their produce. So everything just is rubbish. You know, they can't have anything. So when they talk about all the crime and all the fighting in that part of the world it becomes very easy to recruit people who are already very angry, the same way Al Qaeda is able to recruit and reach people for different reasons around the world. That's exactly what is happening in that part of the world. So the point I'm making is that people, at least I know in some parts of Nigeria, are really very, very conscious of those environmental issues. And it is the only place that I know where the oil companies have not bothered to do anything about the clearing up. But you will ask me, "why should that be the case?" "Why should that be a problem?" "What is the government doing?" I am not seeing any legislation or any kind of arm-twisting tactics from government to say, "well if you want to continue doing business here, start to clean up this place a little bit." Or to say, "okay, for the next five years you will contribute fifty per cent, government will chip in fifty per cent and we'll clean-up this mess together."

**SK: So that's how you would explain the problem, a lack of clean-up?**

GG: Yeah, "but we have to clean up this place." That's not happening and therefore the place is just getting worse by the day, every time, and that's it's been there for twenty odd years. You know-

**SK: I was going to ask you how long this has been happening exactly?**

GG: Oh, it's been there forever. I mean, some of this what I've told you about was

when I joined the university as an academic, when I started, you know, my travels, you know, and that was in 1986, 1987, and they are still there now. And they were not new when I was visiting then, so we're talking about thirty years.

**SK: So these are all the Western firms that are responsible?**

GG: Mainly.

**SK: Including BP?**

GG: Yeah, all of them.

**SK: Chevron-Texaco?**

GG: Yeah, all of them. All of them. It's really, really, really terrible. But the people of the area claim, they always do claim publicly, that Shell is the worst culprit. They always claim that, you know. So why I'm saying is, if it's a bad issue in Angola now, it will be an issue when they begin to have spillage.

**SK: Well I think it certainly will be, but mostly it's off-shore now I believe, rich fishing grounds.**

GG: Because I used to love my fish when I go to South Africa. I know the whole of that area you have a lot of very good fish. When I lived in southern Africa, you know, two weeks, three weeks, it's all fish for me. So I wouldn't want that to happen in Angola because that would kill the fish, and it's going to render other people unemployed, and that creates more social problems. You see, you get more social problems, you know. So the environmental issues are a big concern there. But that's one aspect of the issue, the oil spillage and the land and so on. The other aspect is the gas flaring. Very bad. That goes on forever, and we'll find it all over the rivers and the land of southern Africa, of Southern Nigeria. You will find it there. You know, twenty four hours, it's just there now, you'll find it there, which is a lot of pollution.

**SK: How does the flaring gas happen though? I've read something about it but I'm not too sure.**

GG: I don't know. You know, it's a technical thing, but I think... may have to look into that. But, you see, when you go to the areas where they do this flare and the heat, the amount of heat, it's not... we are not talking about sixty degrees Celsius, we're talking about seventy or eighty, almost like boiling point, you know, because that is when you are almost boiling away. You will see a lot of heat and then in some areas there is not so much heat. There is some heat but there's a lot of smoke. It's like, you know, a bad

engine in a car, you know, and then a little bit of black smoke, something like that. And that goes on throughout the day, throughout the night, and there are people living within five miles, two miles, three miles, and that's where they live. So there are significant issues of environment.

**SK: How do you think all these environmental problems will be solved though? Do you think the companies can do it alone? Do you think they'd have to work with the institutions in the country?**

GG: Honestly, if the companies could do it alone, some of them would probably do it. Some of them, I'm not vouching for all of them. Some of them will probably do it. But the honest answer is that it has got to a proportion that it is impossible for companies to do it alone. So it needs a lot of international awareness, of pressure on government to do something as well.

**SK: This ties in with the transparency issue in a bizarre way, because it's about companies doing things on their own. I know that in February 2001 BP decided to publish their annual accounts to make transparent the tax payments to Angola. Because remember I said it doesn't go through the central bank like it's supposed to, it goes via Sonangol's off-shore subsidiaries, off-shore bank accounts. It was widely reported at the time that Sonangol's president wrote to BP saying that confidentiality agreements had been broken and he threatened to end BP's contract. I don't think that he was serious about that. He sent BP that letter, and he also sent all the other oil firms in Angola the same letter. My Angolan contact reckoned it was a scare tactic to scare all the other firms into not publishing their accounts. Consequently BP never changed their stance.**

GG: Of course.

**SK: Business pretty much carried on as before, more or less. So I know that's a different issue, but that pretty much represents the difficulty of trying to act alone. If you are going to try and transfer sound corporate governance and CSR principles to Africa you can't do it alone, you have got to do it in conjunction with other firms.**

GG: Yeah. But the problem is the competition. You see, they are in competition. They are in competition and they are competing for the same oil blocks, you know, or some exploration prospect in the here and there, you know, and "if you lose it, I get it." You

know? And I think that is what has... there's a lot of poaching, and so on. So I think it's very difficult to get them to work together on some issues.

**SK: How or do you think international institutions could play a role in that case?**

GG: Yes, I think so. I think, you know, the same way that you have this UN agency that is responsible for investigating the development of nuclear power in countries, there's a similar agency... I can't remember the name now... within the UN that... you know, I think if international organisations get a lot more involved, I think it might generate a lot more awareness. There have been individual efforts here and there to sensitise people to the problems, to look at problems in many other sub-Saharan Africa, particularly regarding degradation and so on. But it's still too little. What I have realised is that the media, the television media particularly, the international networks, they are a very strong conduit of information to a large number of people to sensitise. Anything coming on CNN, on Sky, on Aljazeera and so on, tend to generally raise a lot of awareness among people in the Western world. I've always realised that when things concern developmental issues and that affects something on rights of people in the developing world, when it is heightened in terms of awareness in the Western world, something gets done. Something gets done. As it is now, people in the Western world really do not appreciate the enormity of this problem still. So it is that publicity that should be the starting point. When people really know... that's why we have all these Fairtrade things that, you know, "don't buy from those ones, they are not trading fairly," and so on and so forth. You know? So that awareness is not there at all. I'm sure if it were possible to get cameras rolling and get a group of close international networks, you know, CNN, BBC, Sky, to come and film your area and just show things in that documentary, in literally about three or four days you will see the awareness flooding and the condemnation, and the pressure going on to that part of the world. But that's not happened.

**SK: You only really see issues like that on *Current TV* as they occasionally have reports on things like this, but you do not see things like that generally.**

GG: No, no. You only see the nature, you see the animals, you see the wildlife. You know?

**SK: You say that Africans are actually concerned, and they're very concerned?**

GG: Oh they are very concerned. They are very concerned. They are very passionate

about... there is a particular group that I remember who has been praying and hoping that the oil in their own part of Nigeria will just dry up and make them into a poor country so they can have their lives back.

**SK: Really? My God! Gbola, I have got to say thank you very much.**

GG: Thank you.

## **Appendix 13.**

### **Follow-up Email Questioning with Doctor Gbola Gbadamosi of the University of Worcester Business School, 4<sup>th</sup> October, 2011.**

**Key:**

**SK: Steven Kort (interviewer)**

**GG: Gbola Gbadamosi (interviewee)**

**SK: You mention in our face-to-face interview about the oil spills in the Niger Delta, and that people on the ground will tell you that Shell is the worst offender. Shell claim that “in recent years most spills from [our] facilities have been caused by sabotage and theft. But some are operational spills due to equipment failure or human error”. Therefore, in your opinion or from what you know, are the oil spills caused mostly by sabotage and theft, or mostly by operational spills?**

GG: I want to believe that it is possible to get a realistic on-the-ground view on this. As far as I know, the evidence on the ground and what you will read in the press and talking to people especially in that part of Nigeria, it is almost entirely operational spills. Human errors/equipment failure for environmental degradation can only happen for so long. We are talking about spillage that happened for well over a decade. Responsible firms will not close their eyes and let it continue for even a full month (in today's world) and that is really the point for me. As far as theft and sabotage it will certainly not apply to the timeframe we are talking about. Theft and sabotage are a lot more recent relative to the time of the spillage occurrence in Nigeria. I think the real issue is that the government of Nigeria may have significantly indulged Shell (and other Multinational Oil firms) with little or no control (which is their oversight function) hence these companies acted as they pleased at that time. All these have changed and Shell can now rationalise it and attribute it to others. I think it is a failure of CSR on their part and this is why they have more or less acknowledged their failure in this respect and are willing to pay the heavy financial atonement for it. The UN says it cannot be cleaned up in 30 years!

## **Appendix 14.**

### **Semi-Structured Interview with Doctor Andrew Hale of the University of Worcester Business School, 22<sup>nd</sup> November, 2010.**

**Key:**

**SK: Steven Kort (interviewer)**

**AH: Andrew Hale (interviewee)**

**SK: Can you tell me about the historical background to China's re-emergence? I mean, this is a wide-ranging thing. The historical background determines re-emergence. Well I'll give you an example of the sort of thing I'm after here. This is probably a more specific answer than you can probably give, but I've read that the Kailan Mining Administration... this was a British-owned firm that operated in China during the earlier period when China adopted the corporate form, before the Communist Party came into power. They had a guy called Liu Hongsheng, and he was employed by KMA, the Kailan Mining Administration, as a comprador or an agent. Basically what he did, he ran the business side of the Kailan Mining Administration.**

**AH: So this was when?**

**SK: This was in the early years of the twentieth century, so pretty much leading up to the founding of the People's Republic. But in his role as comprador he also ran his own businesses and he used his position as the comprador to further his own business interests and actually to learn about Western style business practices, and therefore he adapted Western style corporate practices to his own businesses, but not as a means of Westernisation, but more it seemed... very much later he admitted this. He was even interviewed by the Chinese Communist Party in the fifties because they thought he could help. Not as a means of Westernisation, but more as a tool to improve the economic well-being of China. So they very much... they embraced Western ideals, Western business practices, and they adapted them to Chinese business needs. So can you tell me any similar stories concerning Chinese recent re-adoption, of capitalism, let's say?**

**AH: Part of my argument is that before the 1970s there was a Westernisation process going on in China. But, in fact, what-**

**SK: I think it was roughly the same time as Japan's Westernisation?**

AH: Yeah. Well yes, because the Japanese actually were mortified, horrified at what was going on in China during the nineteenth century, the carve-up of imperialism, and the Meiji Restoration was one of the things that they did as they were determined to avoid what happened to China. And the part of why this happened to China was government interference. More recently, clearly since 1979 and the opening up of China, they have taken on board a lot of Western practices, and a lot of this has come about as a result of foreign direct investment where people have been allowed in. That's one of the ways they learn. But where there's this tension, I think, is always that you've got a government trying to-

**SK: Interfere?**

AH: Well, yeah, because having moved from a proper planned economy where the government signs everything to a socialist market economy, the government still has a large amount of control within the economy. So, in my understanding anyway, what you see in a Chinese firm, it may be a public joint stock company but the government speculates an active role by holding onto shares. In other words, it's this golden chain, if you like.

**SK: Do you know anything about the 'national champions'? I know there has been a lot of privatisation in China recently, but they have actually put a number of key firms in key industries. They're calling them the 'national champions'. Actually the state-owned oil enterprises that I'm looking at, they're some of these national champions, but they purposely pick those as-**

AH: Yeah, well it's part of the grand plan, isn't it?.

**SK: It's the grand plan by the government?**

AH: Yes. What China is trying to do is to catch up with the West. It's trying to catch up with the West and having... I can see China, as I say, it's Chinese capitalism as a strong element of economic growth. They want to catch up with the West, they want to get back to the situation where they were previously, when they were the centre of the economic universe. Now the trick is whether they can do that, and is it possible to do that with the government still being a one-party state? Or do you have... you know, is capitalism, is it a concoction of capitalism, or is it a Western-type democracy? I would argue not, as if you look at Asia, what you've got in Asia, there are a lot of examples of

countries where the state is viewed differently to in the West, whereas in the West we're very disrespectful towards the state, we don't like government basically in Anglo-Saxon economies. Whereas in China, because they culturally show great respect for their leaders.

**SK: So how do you think this cultural aspect influences that then, the Chinese culture?**

AH: Well I think we go back to Confucianism. I mean, the state has got... there's a father-figure. And therefore, you have great respect to those above you. You have great respect for your leaders. So, I mean, I show a film on Taiwan. I know Taiwan is capitalist but it's still Chinese.

**SK: Oh of course, yes. It's the Chinese Nationalists who are in control there isn't it?**

AH: Yes. But it's still... it's only recently they've adopted Western-type democracy. If somebody criticised our government I wouldn't bat an eyelid, I'd probably agree with them. Whereas if you criticised the Chinese government they'd see it as an attack on China, the father-figure, and it goes back to individualism versus the group, and the group is more important in an Asian country because of Confucianism and because of their history.

**SK: Well how do you think... I mean, a lot of firms, certainly these state-owned enterprises, they listed in Hong Kong, not just only in Shanghai and Shenzhen... but do you think foreign listing affects this? I mean, I'll give you an example there. I met a guy that went to Birmingham Business School, he just did a PhD there, and he worked at the... I forget what it was called now. Basically, he was in charge of the container ports for the city of Shenzhen on the mainland, and he actually lived in Hong Kong. But even though China have taken over Hong Kong, he found that in Hong Kong he could say what he liked about the regime, but when he went over to work... it's the Yantian Container Ports, I just remembered now... but when he actually went across to the mainland to work, he actually commuted there every day, he had to watch is Ps and Qs.**

AH: Well, yeah, exactly. But even within Taiwan and Hong Kong, I still think there's a greater respect.

**SK: There's a greater respect than here in the West?**

AH: In the West, yes. Because it's individualism versus the group, and it's built into their culture. They look at their state, they look at their leaders, and it's different to the way we live. You know, we're very critical of our politicians, we don't trust them. And if basically you don't trust them, I mean I guess most people think... or a lot of people think that politicians are in it for their own gain. Whereas in China, there you've got a different culture. I think that's similar to Japan, and I think the fundamental cultural background is Confucianism. And it's reinforced by Marxism... you don't criticise the government.

**SK: So I am going to explore Western perceptions I think, here. I mean, some of the things I've been finding are, certainly in the media... I'm thinking specifically here about the investment in Africa, and there's a lot of complaints about what China are doing, certainly in Sudan. My case-study is actually Angola. But a lot of Western media, even some Western business people I've come across, they've said, "Oh China is going in and they're investing without any conditions attached." If a Western firm goes in, there always has to be some conditions attached about governance. But China, they see it in a different way, that you shouldn't interfere in another country's institutions or-**

AH: Yes, because if you interfere in theirs, then that would say the West could be critical of the Chinese government.

**SK: So in that case then, the obvious question is do you think that some of these Western perceptions about Chinese business, certainly there are a lot of negative perceptions, do you think these negative perceptions are fair?**

AH: Well, yes, I would think they are actually. I mean, I think what China's up to is economic nationalism. And, you know, she's not a resource-rich country so therefore she's competing with the West to make a bad job of Africa-

**SK: That's certainly what Gbola said and I've come across lots of evidence for that.**

AH: They can present this image of a different model of capitalism to the West, which appears to be very attractive to the Africans in that it's saying... you know, it's based on economic nationalism, and "If we can catch up with the West, then so can you".

However, and I think what the Chinese are after is resources, you know... that's the bottom-line. I think they're very canny in doing that.

**SK: I mean, to some extent, because it's probably something BP can't offer, I know in Angola the Chinese, all three state-owned enterprises are involved in Angola, so it's the perfect country to study, and the Chinese government are actually going in as well with complementary investments. They're promising to give preferential debt, or in some cases they're even wiping out the debt. So do you think that's all part of this national capitalism then in that case, because the government are doing this complementary investment?**

AH: Yes. Reinstate their gravitas is what they're trying to do.

**SK: Yes. And do you think that's an advantage for the Chinese firms then?**

AH: Of course it is, because it's an alternative model to a failed Anglo-Saxon model which in Africa is seen as imperialism.

**SK: And there's an important argument I could probably raise there. Chris Alden he was at the LSE, I'm not sure whether he still is, but he wrote a book called *China in Africa*, and he wrote that China could be seen as a development partner for Africa, or they could actually be seen as neo-colonialists. So which would you say? Would you say development partner or neo-colonialist?**

AH: It depends who-

**SK: It depends on who you talk to?**

AH: And which way you look it. It's certainly no worse than the model that they've had before. However, if I was African I think I'd be very wary, you know, of Big Brother. But what's the alternative? If it's a Western... American imperialism, or British imperialism or a European one, we haven't had a good track record in the past. But I don't think the Chinese are doing it in exactly the same way, it's economic nationalism.

**SK: Of course, yes. Excellent. So you said you'd done varieties of capitalism. One thing I've read about what's possibly emerging in China is 'hybrid capitalism', where you have the state but not interfering, but you've got state-led growth, and also they are embracing, to a certain extent, foreign business ideas. So you've got this kind of organisational hybrid. Have you ever-**

AH: Well you have that in Japan as well, in that the Japanese have learnt from the Americans. So if you look at things like quality control, which we now think of as very Japanese, in fact it was American, and the Japanese learnt that from America, took it and developed it, and I guess the Chinese will do the same thing. I would say that the

Chinese feeling is that China will do what China wants to do. And what I mean by that is that China will develop its own brand of capitalism. It's the mix of state and market with the Chinese. It certainly wants progress, but modernisation does not equate with Westernisation. Modernisation means, I guess, a brand of capitalism, but it will be a Chinese brand of capitalism and it'll be closer to, I guess, the Japanese brand.

**SK: Well have you heard the term 'socialism with Chinese characteristics'?**

AH: I think that's what the Chinese call it, but I would say it's 'capitalism with Chinese characteristics'.

**SK: 'Capitalism with Chinese characteristics', that's good.**

AH: You know, just like the Japanese developed their own institutions within the firm and external to the firm, I guess you might get a model developed in China which is similar to that. It won't be exactly the same, but it would certainly be closer to what I would call state-led capitalism. I mean, the Chinese are never going to become like American Anglo-Saxon type capitalism. Why? Because of their history and because of their culture, and what they've got in common with the Japanese is their culture. You know, it's the respect, the group is more important than the individual, and because they're coming from behind.

**SK: Yes, it's this catch-up?**

AH: Yes, where the argument is that in countries that come from behind, respect has a greater role to play, and I guess that is true of China as well. Where China ends up, heaven knows. I said to the Chinese students, "Why don't you come back in a hundred years' time, then I'll give you the answer." Because, you know, they don't-

**SK: Do you they'll be bigger than the United States then?**

AH: Well they're definitely going to be a bigger economy than the United States. Anything the Americans can do, the Chinese can do. And in terms of GDP they will overtake America, I guess, in the next forty years,-

**SK: I would say so, yes.**

AH: Where you've got the GDP per capita, that's a different story. Also, whilst countries from behind grow faster, the other thing is that as they catch up they slow down, and Japan is a good example of that, and I guess that the Chinese... it seems easy for them to grow 10% now, but when they become more mature, they reach the production possibility curve, and they have to start coming up with new inventions, well

then I'm not so sure because that's when the individual, the entrepreneurial, the flair comes into play.

**SK: Well another question this raises is how innovative do you think the Chinese are?**

AH: I think they're very innovative. I mean, innovation is easy. In other words, you take the best from the West and you introduce it. But when it comes to the production possibility frontier, then what you need is invention and you know, pushing out into new areas. How good they'd be at that,-

**SK: You don't know?**

AH: Well I suspect they won't be very good, because what's interesting is, I mean, if you think in terms of... again, I make this comparison between Japan and China. Japan's catch-up after the Second World War, it didn't take long before you had brand leaders around: Sony, Honda, whatever, and those became household names. Now, since the Chinese economic development since 1979 I can't think of one Chinese brand. Haier is the nearest.

**SK: Lenovo? Didn't they take over IBM-PC?**

AH: But they're not world-leaders. Everybody's heard of Honda, everybody's heard of Nissan and so on, but it's very difficult to think of Chinese brand-leaders. And why is that? Well I would argue that the model is still too state-orientated. The state's heavy hand is on there. So, yes, it'll be interesting to see whether they do catch up, and I'm not convinced at the moment. I think they'll certainly catch up in terms of terms of GDP, but in terms of GDP per capita, I think that it is estimated that the Chinese haven't grown. If they fail to grow at something like 6% then they're gonna have social arrest. Right? Because you need over 6% to mop up all of the pool of labour coming from your state sector, so also their economy is overheating and they've got asset bubbles developing at the moment in housing. And you've got a certain situation where they're building houses and-

**SK: And nobody's actually living in them?**

AH: And nobody's actually living in them because they're seeing them as a capital asset which you can make capital gains on, you know, you've gotta keep it in mint condition. Well that's absurd. And the other problem is at the moment the Chinese are suffering from inflation, and that's because of their low exchange rate. So it's not all easy.

**SK: I know you don't know too much about corporate governance but, in your opinion, would you say that the... well, I'm thinking of the national champions here... do you think that these firms are well governed by... I'm thinking here are they comparable to international standards? You know, the large national champions, some would say.**

AH: Well I think that goes back on what I've just said, in that they hadn't developed international and national champions to the extent that the Japanese did. I mean, what you've got in Japan, putting it crudely, after the Second World War, was an oligopolistic structure. They competed internally but they tried to develop national champions which would have a large market share of world trade. And, as I said, the Japanese, they did develop household names across the world. I can't think of any Chinese firms that have done that. And that's their weakness. That's not a new idea. *Whatever happened to Britain?* He wrote that book, didn't he? He's written another book on the Chinese economy, and basically he's saying that China hasn't turned out any national champions.

**SK: Really?**

AH: Really.

**SK: So why would he say that?**

AH: Well because they haven't. I go back to what I've said. Can you name any world-famous Chinese companies?

**SK: Yeah, because I'm thinking here... I mean, the idea of the National Champion was-**

AH: They went at that as an objective, but they haven't achieved it. Thirty years on from the Second World War we all knew of Nissan, we all knew of Honda, we could list a whole host of Japanese companies.

**SK: Even South Korean firms?**

AH: And South Korea. Exactly. But you can't do that with the Chinese. Why is that? And if that's the case, then you could argue that they haven't achieved what they tried to do. I mean, the nearest you come to it... as I say, the only one I can name is Haier, and Haier makes cheap goods. You go up to Curry's and you look at the cheapest goods, and it's Haier or you've got the other Turkish one, Beko, which most people who've got any money wouldn't touch with a barge-pole. So if that's the height of their

success... it may well change in the future, but I haven't seen it yet.

**SK: I think I'll go back. Can you tell me a bit more about how the planned economy has demised then in China? What can you tell me about that?**

AH: Well the planned economy failed in China, just as it failed in the USSR as well. The Chinese did lots of things under Mao which... Mao might have been a good leader from a principle point of view, in that he... well he liked his China and he threw out the foreigners so that has to be good, in the sense that China became independent and became Chinese. But he certainly wasn't very good in terms of economics. And then he tried to catch up with the West and the way he did it, it didn't work, and the cultural revolution was a disaster. So what has been introduced since 1979... oh what was his name?

**SK: Oh God. I think I know who you mean though, so don't worry.**

AH: I mean, he said-

**SK: I can always check on it.**

AH: Yes. I mean, it's much more pragmatic than-

**SK: Ah, was it Deng Xiaoping?**

AH: Deng Xiaoping, yes. You know, it was his famous quote 'it doesn't matter what colour the cat is, so long as it catches mice', and basically what he was saying was whatever economic system is best for China we will adopt that. Certainly he was much more pragmatic and, as a result, there's been an opening-up of China and they've allowed foreign investment in, they've allowed privatisation and so on. And as a result the economy has started to flourish. But how far that will go is debatable, we don't know. Nobody knows.

**SK: What do you... I mean, the cultural revolution failed, but didn't they have the Great Leap Forward?**

AH: The Great Leap Forward was a disaster.

**SK: So do you think adopting this... well, this socialism with Chinese characteristics or, as you called it, capitalism with Chinese characteristics, do you think that was to recover from those disasters? But do you think also it was a way that the Communist Party could actually remain in power in the end? I'm thinking perhaps of Tiananmen Square here. Did they feel that they've got to get it right economically in order to stay in power?**

AH: Well I think it's... the other quote that he's famous for was how to cross a river. "One might as well cross the river feeling one's way with one's feet." In other words, you do it gradually and you do it very clinically, and that's what's happened since 1979. Whereas you had a shock therapy approach in Europe when the Communist Parties went, what you have in China is a gradualism, and it's worked in the sense that it's opened up the economy, it's allowed market forces in, but it's all under the control of the government. Now, how long the government can retain that, then that's the question, because we have the de-centralisation. Also, you've got an unbalanced economy, in the sense economic development has been in the East, whereas in the West it's very different. And there's tensions there and also those tensions are [unclear speech] and tensions around the idea of whether if you introduce... inject capitalism, as they have, then does that mean that in the future they'll have to go for political reform as well, in the sense that they have to move away from the one-party state?

**SK: Whether that's going to happen or not is too clear is it?**

AH: Well, yeah, they talk about political reform, but-

**SK: Well some people have actually said that the next stage of development is that have got to move away from a one-party state. Whether that's-**

AH: Well if you look at the counter argument around this, you know, if you look at Taiwan. Taiwan developed economically and they're a dictatorship so is there a need for Western-type democracy. As I say, I'd like to come back in a hundred years' time and see what happens.

**SK: And see what happens, yes, absolutely. That's very good. One of the things I've looked at is this thing about hybrid capitalism and also I gave you this example about China embracing foreign ideas and actually adapting them to their own purposes. So how far would you say that China is actually... this is just for clarification really, how far would you say China is actually involved in developing her own business model as compared to actually wholeheartedly going to an Anglo-Saxon model?**

AH: Well they're not actually... they've got no intention of going to an Anglo-Saxon model.

**SK: Or even a German-Japanese one?**

AH: Well they see their own brands.

**SK: It will be their own model too?**

AH: Well, just like the Japanese. This is the point that I'm making. If you compare British capitalism to French capitalism or Dutch capitalism, there'll be big differences. And even if you compare two in the Anglo-Saxon model, like Britain and America, there are big, big differences. And, likewise, I think within state-led capitalism, China is... rather than calling it a socialist market economy, I would say it's state-led. And I can't see the difference between state-led capitalism and socialist market economies. But, even within that niche of state-led capitalism, it ain't gonna be the same as the Japanese, it ain't gonna be the same as the Koreans. It'll be in that area. I can see tribal-like conglomerates about in China, but there would be subtle differences because they are Chinese, they would develop their own brand of capitalism. And if you want it to be the same, it certainly won't be anywhere near on the spectrum of Anglo-Saxon. As I said, modernisation is not synonymous with Westernisation, in the sense if you think of the USA as being Western. And then I think it would be more like the Japanese, more like the South Korean, but where exactly it will be, I don't know. There are gonna be subtle differences. The Chinese will do what they want to do.

**SK: Yes, because I think... because I can come back here. I think it was Jian Chen who said that, certainly in corporate governance, the Chinese, they've actually embraced Anglo-Saxon models, but only in principle. In reality it's more like the German-Japanese model. But of course these are generalising models anyway.**

AH: Yeah, in the German model... I mean, there are big differences, and the German was based on industrial banking, as a result of taking a long-term perspective, and the Chinese might move... they'll move to a sort of an indicative plan, where the plan will be more a relationship between private enterprise and the government. But who knows? It depends what happens.

**SK: That's pretty much what they're doing for me, because I looked at the earlier adoption of the corporate form and it's pretty much... they've carried on where they left off from there. It almost seemed like the period the People's Republic... well when it was certainly a planned economy, like that was a break in adopting the corporate form, I'm of course talking here about the period between 1949 to 1979, that was just a blip, and that what they're doing for me pretty much is: China is just carrying on with reforms that they were introducing in this earlier**

**period..**

AH: But they're still calling it socialism.

**SK: They're still calling it socialism now though, yes. But of course a big problem with the early adoption of the corporate form is that of course it's very similar, at least, to what they did in Japan where of course it was very successful in Japan but it wasn't in China. You did say earlier that it was a failure in China, the early adoption, and one of the reasons was state interference. You said that-**

AH: Well not only that, but that the West had carved up China.

**SK: Indeed. Well, the one thing I heard is that during that period China was very, very corrupt.**

AH: Yes.

**SK: So you agree with that?**

AH: Yes, but also, you know, Japan was lucky in the sense that she was able... she had been kept in isolation for two hundred years, and that was-

**SK: That was the Tokugawa dynasty?**

AH: Tokugawa period. And then when the Meiji came in, firstly they wanted to expel the barbarian, you know, but later on it became less copied, or less learnt. And I'm sure the Chinese are doing exactly the same. You know, it's interesting, I face in the next semester fifty Chinese in my class.

**SK: Out of a class of how many?**

AH: Out of a class of seventy. Talk about taking coals to Newcastle. You know, I never thought I'd end up teaching the Chinese about the Chinese economy.

**SK: Well, unbelievably, I've even done that when I lectured Howard's MSc students. A lot of them were Chinese. And I was teaching them about Chinese corporate governance.**

AH: Well, yes, who would have thought that would have ever happened. But it's happened. But then if you look back at Japan, this is what happened after the Meiji Restoration. They sent people abroad to learn from the West. But that doesn't mean they copy the West, because they don't. They embrace things from different places and then they synthesise them and then they add their own little ways, just as, as I say, in Japan. The Japanese took quality control from the Americans, but then they made it into something even more, and they exported it back to America. And I'm sure that will

happen with the Chinese. You know. And then, I'm guessing perhaps in fifty years or so, we'll be driving our new Chinese cars, but not yet. Because, as I say, there is this question-mark over they haven't turned out any brand world-leaders, whereas the Japanese and the Koreans have. You know, Daewoo, Hyundai, all these Asian companies are international champions. And where's the Chinese international champions?

**SK: The so-called Chinese national champions, well there's Petro-China, there's CNOOC and Sinopec, but they are not exactly well-known, are they?**

AH: No. They're not in the West, are they?

**SK: No.**

AH: They're not competing with BP and-

**SK: Well they are competing for exploration and drilling rights, aren't they?**

AH: Oh yeah, I'm sure they are... in the primary goods market. You know, if you go to Canada and you see BP or, you know, wherever you go in the world-

**SK: You see them in the Gulf of Mexico as well.**

AH: Yes. That's the point, isn't it? They are an international company. I can't think of any international Chinese companies, so does that constitute a failure?

**SK: Exactly, yes. Well one thing... I don't know if you would know, and we'll just finish off on this. I'll give you an example actually. You say you didn't know, going back, about China being viewed as like a development partner for Africa, or like a re-coloniser. One of the things I've pretty much been gathering is, the Chinese investment in Africa will be very handy for the African elites because, like I say, the Chinese are going in with no conditions attached, and they've said, "oh yes, we don't have to bother with the West, that's fine." But there's some stories emerging concerning the actual people of Africa. I mean, the Chinese are coming in, and Africans are benefitting from the schools and the roads that they're building. But what real benefit are the African people seeing? One of the things I've heard is perhaps the honeymoon period for Chinese investment is over, because they've only recently gone into it, and everybody thought, "oh great, this is a new model, a new kid-on-the-block coming in," but... and everybody thought it would be great at first. But the actual people of Africa are now thinking, "well hang on, we're not actually getting any real benefit from this at all." I am going to use the example of**

**Zambia here. There was somebody who ran for the presidential race in Zambia, and he campaigned on an anti-Chinese sentiment, saying “Zambia is becoming another province of China, they’re coming here and they’re taking over.” And, as it worked out, he didn’t actually get the presidency, but on this anti-Chinese sentiment he established himself as a major political force, certainly in the mining areas where China were investing.**

AH: What did Gbola have to say about this? Because he would know all about Africa.

**SK: Well, yes, he said pretty much that I’m probably writing at the right time, we are arguably seeing the end of the honeymoon period for Chinese investment.**

AH: Yes. I mean, what they’ve got going for them is they can cast themselves as a developing nation.

**SK: It’s this south-south partnership, yes?**

AH: Yes, so, “like you, we’re a developing nation,” you know, “we’re trying to catch up with the West.” I mean, that’s what they’ve got going for them. And also the other thing, I guess, they’ve got going for them is this idea, as you suggest, is “well, you know, we’re not insisting upon Western-type democracy. Quite the opposite, we’re quite happy for you to have a totalitarian regime, we’re not gonna interfere with that.” Well they can’t, can they, because they too have a totalitarian regime. So, you know, that would be appealing, I think, to a lot of African leaders as a model against the imperialist West. But, as I say, whether this-

**SK: But would this be appealing to the people though?**

AH: Well I don’t know. Well it’s only appealing to the people if it gives economic development. No, I don’t know enough about that. But if the investment involves building hospitals and education,-

**SK: And in all fairness, BP is doing it as well.**

AH: - then that would seem to me to be a step in the right direction. But, against that, as you said, if people see themselves as being exploited and losing their sovereignty, to becoming a suburb of Beijing, well no, they’re not,-

**SK: They are not going to like it, are they?**

AH: - they’re gonna defend it. Because I would argue, just as China wants to develop its own brand of capitalism, well clearly so does Africa. Because they don’t have to follow a Chinese model. It should develop its own brand of capitalism, state-led capitalism or

whatever you wanna call it.

**SK: So whether it works in Angola or not, I'll have to see. Well I'm finished, so I'll tell you one quick story. I've got an informant that we have decided to use in an advisory role. He used to work for Sonangol. He says that if Chinese firms are going in, and not everybody's happy about it, you can say the same about Western firms. Angola had the long civil war, and a BP official told my informant that, just to explain firstly... most of the oil exploration and drilling is off-shore in Angola, around Cabinda which is on the north coast. There is a big problem because it's a fishing area, but that is another issue. But BP was still investing during the civil war and a BP official told him that when he is asked, "what are you doing? We've got a civil war here, why are you investing? You're not doing anything," the official answers, "Well we're drilling off-shore, we don't care about what goes on on land." Charming. And that's a Western firm, BP.**

AH: Oh yeah, yeah. I mean, Africa's a lost opportunity. Unfortunately we've just gone in there in the past with imperialism and colonies.

**SK: Of course Angola was a Portuguese colony.**

AH: Exactly. But then all the West have treated them as colonies, so we carved it up in the nineteenth century. But whether the Chinese going into Africa now is going to present anything different-

**SK: Remains to be seen?**

AH: Remains to be seen. Because, as I said, the Chinese, they're in it for their own benefit, and that is to get resources for their resource pool. Well the danger is they go to Africa and, as we suggested, it becomes just a suburb of Beijing.

**SK: Or Shanghai maybe.**

AH: Yes.

**SK: They have got some oil reserves in the South China Sea, I think, but I think the major reserves on land is just the Tamarin Basin, which is way out in the sticks of China.**

AH: Yes.

**SK: Okay, well thank you very much.**

AH: Does that help?

**SK: Oh I think that'll help very much.**

## **Appendix 15.**

### **Email Interview with Jonathan Samuel, the Social and Community Development Manager at Anglo American, 10<sup>th</sup> December, 2010.**

**Key:**

**SK: Steven Kort (interviewer)**

JS: Jonathan Samuel (interviewee)

**SK: Can you outline the most important drivers of Anglo American's corporate responsibility principles?**

JS: Firstly, the values of the company come largely from its employees. These values include: an absolute focus on keeping our employees safe at all times; developing local communities; environmental responsibility; treating employees and stakeholders with care and respect; respect for human rights and so on. We need to win the permission of both host governments and communities if we are to be able to develop new mining operations. Behaving in a responsible manner is critical to securing that formal and social licence to operate. We believe that responsible business can also be more profitable. For example, our free HIV/AIDS treatment programmes for employees are the largest in the world (and were a world first). However, in addition to the humanitarian and health benefits, the programmes keep our employees healthy and productive, and so save the company money in the medium term.

**SK: Anglo American still refers to their corporate citizenship as CSI. Why is this the case?**

JS: CSI refers to corporate social investment. We regard this as only a small part of our overall approach to corporate responsibility. Please see attached PowerPoint which explains our approach to *social performance* in more detail. Other aspects of CSR at Anglo American relate to environmental management, employee health and safety, responsible procurement, a zero tolerance of corruption, how we recruit and develop our employees etc. Please see our annual Report to Society for more details on what falls within our definition of responsible business.

**SK: CSI is a term that is widely used by firms based in South Africa to describe their corporate citizenship and CSR. Therefore, to how much extent does Anglo American regard CSI as applicable to the African setting?**

JS: As noted above, CSI only relates to our social investment programmes. We view CSR and CSI as both being very relevant to the African context, and indeed to everywhere else we operate. Or, to put it another way, we do not think it would be in our interests to be “irresponsible” anywhere.

**SK: How does CSI differ from the CSR that other firms in the UK have?**

JS: Refer you to previous answers on CSI. For Anglo American’s CSR programmes more generally, our large footprint in emerging markets probably means that we have a great focus on community development, basic service provision (e.g. health) and human rights than businesses only operating in, for example, European or North American markets.

**SK: In the book by Jones, I.W., Pollitt, M.G. and Bek, D. (2007) *Multinationals in their Communities: A Social Capital Approach to Corporate Citizenship Projects*, it is reported that Anglo American treats corporate citizenship as a key component of sustainable development. However, this corporate citizenship is not delivered by a dedicated CSR department. Why is this the case?**

JS: We believe that responsible business relates to all aspects of our company’s business – procurement, hiring, environmental management, employee safety etc. We therefore ensure that policies are set at corporate level and all corporate functions and business units must respect those. For example, our Supply Chain team has dedicated specialists who ensure that we procure from responsible suppliers and develop local supply chains to ensure that local communities benefit. We believe it is much better for Supply Chain to manage this itself as it understands its process and is accountable for its performance.

**SK: Anglo American measures its ‘good citizenship’ business principles to assist its attempts to meet those principles by SEAT, a worthwhile attempt to understand the impacts of its operations on local communities. It does not appear however, to attach a monetary valuation to impacts. Why doesn’t SEAT attach a monetary valuation to impacts?**

JS: Firstly, we measure and report on our good citizenship principles using a wide range of metrics, not just SEAT. Secondly, as noted above, the motivations for responsible business are not primarily monetary. Finally, we do value aspects of our CSR /SD performance in financial terms when it makes sense, but many things cannot be reliably

valued. For example, what is the value of increasing community trust? We don't believe this can be calculated in a financial sense, although we certainly believe it is valuable.

**SK: As long ago as 1954, Anglo American's founder, Sir Ernest Oppenheimer, stated that the aim of Anglo American was 'to make profits, but profits in such a way as to benefit the people and communities in which we operate', suggesting a long history of corporate responsibility. Nevertheless, how does the way Anglo American perceives and implements its corporate responsibility today differ from how it may have been perceived and implemented in the past?**

JS: The key difference is that in recent years we have professionalised and systematised our approach. For example, we have:

- i. introduced clear policies and non-negotiable standards;
- ii. developed key performance indicators for a range of CSR-related issues;
- iii. instituted professional training programmes with leading universities;
- iv. and we are defining core competencies for roles within our organisation.

We have also adjusted our response as we have learned more about the topic and how to operationalise it in our business, and as the external environment has changed (for example, we are placing a greater emphasis on human rights and on climate change than we were five years ago to reflect international issues in this sector).

## **Appendix 16.**

### **Follow-up Email Questioning with Jonathan Samuel, the Social and Community Development Manager at Anglo American 26<sup>th</sup> February, 2011.**

**Key:**

**SK: Steven Kort (interviewer)**

**JS: Jonathan Samuel (interviewee)**

**SK: Firstly, one of the aspects of CSR at Anglo American relates to "a zero tolerance of corruption", quite rightly, as indeed as you state in our email interview. The Chinese are now 'on the scene', if you like, and are now engaging in outward FDI in competition with Western firms such as Anglo American. There is one major feature of Chinese investment, and that is they invest with 'no conditions attached' concerning governance. Therefore, how does Anglo American react to such competition from Chinese firms who invest with 'no conditions attached'? Secondly, wherever Chinese firms invest globally, the host country often benefits from complimentary investment from the Chinese state. For example, to receive licences to operate in the oil sector in Angola, the Chinese are helping to rebuild transportation infrastructure that was destroyed in the civil war, and they have given preferential loans to the Angolan government. This may promote a perception of China being viewed as a 'development partner' for developing countries. Therefore, does Anglo American feel that they have to be more proactive as a developmental agent in order to receive licenses to operate in countries where the Chinese are also investing, or does Anglo American feel that their extensive experience of engaging in corporate responsibility in developing countries is already sufficient?**

**JS: I'll take your questions one-by-one. In response to the conditionality question, firstly I think it is important to remember that the conditionality you refer to is typically related to Western aid donors, not private sector investors. We require minimum standards of governance before we will invest somewhere (rule of law, respect for human rights etc), but we don't really have the mandate, power or legitimacy to expect sovereign governments to respond to a broad governance agenda that we might favour. Or, to put**

it another way, on the whole we have to take it or leave it. If a country doesn't meet our basic requirements we won't invest (what happens once we are in a country and the situation deteriorates is another, more complex matter).

I think your question is also asking how we can compete if Chinese companies don't adhere to ethical standards. In that regard I think it is important to note that some Chinese firms do have high standards, and that many Western listed/based ones don't. Indeed, I could name highly corrupt UK-based mining and metals companies, and we have faced competition from corrupt businesses from well before China started to venture into the outside world. It is also true that most of the good places to do business frown on corruption, even if there are corrupt individuals everywhere, so suggesting that it is a universal competitive advantage is incorrect.

On the second question, it is certainly true that we are trying to be a more proactive development partner for host communities, although generally via "softer" measures such as education, enterprise development and community-based projects rather than large-scale infrastructure. However, this isn't in response to Chinese competition. Rather, it is in response to a greater desire for these things from our host governments and communities.

It is worth noting that while Chinese companies have become competitors for mining assets they are only some of many. If you look at recent deals in our sector the best deals and new projects still tend to be done by Western companies. And China is, of course, a major driver of demand and profits for the mining sector, so if we have lost out on any projects to Chinese competition (and I'm not sure we have) it is more than compensated for by Chinese custom.

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