Creating Change: An Examination of the Impact of Crisis and Inter-Sectoral Cooperation on Corporate Behavior

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Creating Change: An Examination of the Impact of Crisis and Inter-Sectoral Cooperation on Corporate Behavior

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Abstract

This thesis is a study of inter-sectoral collaboration and the impact of crises and social learning and cooperation initiatives on corporate change. The main purpose is to demonstrate how governments, corporations, and non-governmental organizations can most effectively work together to solve some of the world's most pressing development problems. Using case studies of extractive multinational corporations operating in Colombia, Papua New Guinea, and Nigeria, this paper presents support for the fact that crises are essential catalysts for corporate change. Moreover, analysis of these cases reinforces the critical role social learning and cooperation initiatives play in driving longterm improvements in corporate practice.

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Chapter 1
Introduction

This thesis makes a contribution to the relatively new study of inter-sectoral collaboration, examining relationship dynamics and organizational learning. By exploring the interactions between multinational corporations, non-governmental organizations, and governments I strive to illuminate the conditions necessary to initiate organizational learning within a corporation with the intention of improving practices in developing nations. This paper will look specifically at the impact of crisis situations and social learning and cooperation initiatives on corporate practice and policies through case study based analysis. Focusing on extractive operation, I will use cases from Colombia, Papua New Guinea and Nigeria to test my hypotheses and gain a more complete understanding of the conditions necessary to initiate and perpetuate corporate learning and positive change.

The purpose of this project is to explicate why these generally adversarial actors come together in cooperative environments and how collaborative efforts can be extremely effective in creating solutions for the problems of development. Following a crisis situation which brings these actors together, it is essential to diffuse the hostile relationship dynamic between non-governmental advocacy organizations and the corporations and governments they criticize. The inter-sectoral cooperation that social learning initiatives facilitate plays a crucial role in doing this and also further engages actors in value alignment. Creating consensus among actors about their respective priorities and goals provides appropriate incentives for all actors to change their behavior and pushes corporations in particular to improve their practices. This study demonstrates the importance of inter-sectoral cooperation in solving development problems around the world.

Background

The current wave of globalization is defined by the breadth of its impact as it creates interdependence, facilitating cooperation in solving problems of economic development, environmental degradation, and socio-cultural integration. This globalization goes beyond the expansion of economic interests and is reinforced by technological advances that increase the speed of communication, allowing it to permeate the lives of the global population in a more complete way than before. Multinational corporations (MNCs) are active players in the movement toward increased interdependence as they extend their operations abroad so as to produce the material goods that Americans and Europeans use everyday. The extractive industry sector is one of the most prevalent transnational industries as it stretches into developing and least developed states for the natural resources necessary to feed the industrialized world's consumer markets.

The extractive industry is known for its global operations that harvest resources from developing states for the consumption of the wealthy populations of industrialized nations. Despite the fact that this industry has a high environmental and social impact that often leaves local communities and environments damaged, the high profits derived from the extraction of natural resources often justify the consequences experienced by developing, resource-rich states. Developing states are oftentimes hindered by the existence of precious natural resources within their borders in a condition explained by the Resource Curse Thesis and the Rentier State Thesis. These two theories point out that states with plentiful supplies of resources are often characterized by authoritarianism and stunted democracy, as the government becomes dependent on the rent paid by the foreign extractive company.[1]

In an effort to attract foreign investment and exploit the economic opportunities the country has, many resource-rich governments refrain from implementing or enforcing regulations that protect the population or the environment. MNCs favor countries with fewer regulations because the lack of government monitoring allows them freedom to act as they see most effective and as a result, ensure the greatest possible profit. MNCs need a consistently business-friendly attitude from the governing regime to best protect large investments and keep operation costs low regardless of the impact of such a government on the host country's greater population. This situation is also extremely vulnerable to rampant corruption as MNCs, particularly those focused on gaining access to a finite supply of natural resources, are willing to engage in bribery or illegal business arrangements in order to obtain preferential access to profitable extraction sites.[2] The relationship that develops between MNCs and host governments of developing and least developed states is one based on maintaining stability and protecting foreign investment. This arrangement excludes the host country's greater population from decision-making

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[1] Uwem Ite, "Poverty Reduction in Resource-Rich Developing Countries: What Do Multinationals Have to do With It?" *Journal of International Development,* 17 (2005): 913-929.

[2] Eleanor O'Higgins, "Corruption, Underdevelopment, and Extractive Resource Industries: Addressing the Vicious Cycle," *Business Ethics Quarterly,* 16 (2006).

and as a result, the public is left to endure the environmentally and socially damaging policies that an MNC may opt to employ.

Focus

This paper will focus on the social and environmental problems associated with extractive operations abroad. Extractive industries face a variety of environmental issues because of the invasive nature of mineral and metal extraction. For example, the chemicals used in production include cyanide and heavy metals that can cause significant health problems for surrounding communities, and improper waste disposal of used minerals can also contaminate the environment, killing wildlife and vegetation. Moreover, many mining sites are not property cleaned after being decommissioned, leaving communities to deal with latent environmental problems, at constant and continual risk for health problems.[3] Communities are also disrupted as people are forcibly displaced from their land, left uncompensated and without the resources (such as income, job skills, etc.) necessary to perpetuate their survival. Moreover, the political isolation that is common among many of the affected host populations, and their inability to impact the foreign corporate forces altering their lives through peaceful means, oftentimes drives communities to violence. Suffering communities that use violence to call attention to their plight are commonly met with government repression, further fueling resentment and feelings of alienation within the community.[4] The resulting

[3] Adisa Azapagic, "Developing a Framework for Sustainable Development Indicators for the Mining and Minerals Industry," *Journal of Cleaner Production*, 12 (2004): 639-662.

[4] Anna Zalik, ''The Niger Delta: 'Petro-violence' and 'Partnership Development,'" *Review of African Political Economy* 31(2004): 401-424

desperation and frustration among communities destabilizes the social and political status quo. The social, political and environmental consequences are all the more important in developing and least developed states where these MNCs of interest operate because such volatility can undermine the legitimacy of the state apparatus as a whole.

The consequences of extraction-based activity are well known and documented and as a result, many non-governmental organizations (NGOs) are aggressively campaigning for sustainable development considerations to become part of standardized operating practice. This paper will argue that when fighting to improve multinational corporations' environmental and social practices abroad, non-governmental organizations benefit greatly from the occurrence of a crisis situation. This is true because the creation of a crisis situation increases the likelihood that an NGO can garner enough public support to pressure MNCs to change. NGOs are limited by their finite resources and their lack of direct access to corporations, leaving them to rely on the sympathetic support of consumers in wealthier countries to leverage corporations into improving their practices. As a result, it is essential that NGOs work off of a specific event with concrete and easily quantifiable consequences that will capture public attention, thus making an NGO's campaign successful.

The crisis situation alone is not sufficient to make certain that a corporation will continue to take sustainability into account in its future business ventures. In order to ensure that corporate practices continually improve, companies and NGOs must make fundamental changes in the basis of their relationship and work to synergize their objectives, and this can be accomplished by entering into a social learning and cooperation network. If an NGO is able to pressure the company to engage in a cooperative learning venture with the leverage developed in a successful crisis-driven campaign, the NGO is likely to become an effective long-term partner to the corporation even after the crisis is over.

NGOs face many challenges in their efforts to influence corporate practice and deal with MNC-government relations in resource-rich developing states. This paper explores what conditions are necessary for a successful NGO campaign and how NGOs can work though social learning and cooperation initiatives to build relationships with MNCs and governments so as to continually push improvements in corporate practice.

NGOs in Academia

NGOs are relatively new participants in the international community, and their numbers have grown exponentially in the past two decades. The term non-governmental organization can be vaguely applied to numerous organizations operating throughout the world, but for the sake of this discussion, NGOs as defined by Shamima Ahmed will provide the basis for our understanding. Ahmed points to the UN definition of an NGO which differentiates NGOs from intergovernmental organizations. Ahmed further specifies his definition by stating that an NGO "cannot be profit-making; it cannot advocate the use of violence; it cannot be a school, a university or a political party; and any concern with human rights must be general."[5] In the past two decades there has been an "NGO Bloom," with the number of NGOs in the international community expanding

[5] Shamima Ahmed, *NGOs in International Politics* (Bloomfield, CT: Kumarian Press, Inc., 2006), 8.

rapidly. NGOs have taken on many different issues from human rights, to environmental protection and even population control and represent groups from all over the world. Moreover, NGOs have created new issues and challenged old norms in a way that alters the context in which corporate leaders and government officials make decisions.[6] The major questions associated with NGO influence over international norms of corporate behavior and their role in corporate decision-making are the main points of interest of this paper. Although there is controversy in the academic circles regarding whether or not NGOs have any actual influence over corporate or government behavior, my analysis is based on the assumption that NGOs are worth considering as a relevant actor in international politics and that their actions have real consequences on other actors.

NGOs are relatively new to the international scene and the traditional framework of international relations is focused on state-based interactions, excluding NGOs and MNCs from consideration. Realism, the classic model for international relations, and even the newer Liberalism model, emphasize the primacy of state actors, and although Liberalism does discuss extra-state entities as part of inter-state cooperation, it only adds intergovernmental institutions and not organizations in the private sphere into its considerations. Transnationalism and Constructivism, both relatively new to the academic debate, provide partial frameworks for the discussion of NGOs in the international community. Both theories understand the international arena as involving actors beyond the states and that there is a place in international relations for NGOs and new issues over which these organizations can have influence. Moreover, NGOs can

[6] William DeMars, *NGOs and Transnational Networks: Wild Cards in World Politics* (Ann Arbor, MI: Pluto Press, 2005), 35.

impact other actors in the international arena by challenging norms and suggesting alternate ways of organizing political and social arrangements.[7] This paper will use these two understandings of international relations for the theoretical framework when evaluating the efficacy of NGO campaigning and international social learning and cooperation initiatives.

NGOs play a role in establishing norms of behavior internationally not only for states, but also for companies. The question of how NGOs accomplish this goal, and whether or not they are effective, is a major concern of this paper. Current literature from this theoretical framework insists that NGOs do have several real sources of influence and can engage in four types of political action: informational, symbolic, leverage and accountability. NGOs use informational and symbolic politics to create issues and set agendas, and with their monitoring techniques they pressure state and non-state actors with leverage politics based on accountability.[8]

One argument this paper will make is that a crisis situation is a necessary element for an effective NGO campaign, and crisis situations make the NGO's tools of informational, symbolic, leverage and accountability politics more effective. A "crisis" is understood in this discussion to be an urgent situation that significantly threatens a company's well-being. Itt can be a singular event or a breaking point when the culmination of poor practices reaches a critical stage at which the problem can no longer be ignored. Brill and Worth discuss crises as catalysts initiating organizational change

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7 DeMars, *NGOs and Transnational Networks*, 35.

8 Margaret Keck and Kathryn Sikkink, *Activists Beyond Borders* (Ithaca, NY: Cornell University Press, 1998).

because these occasions change the parameters of action, allowing the organization to take a "let's try anything" approach that is extremely conducive to change. Moreover, crises destabilize the previously established system of assumptions guiding organizational decision-making and in doing so, create the space necessary to question and restructure these underlying assumptions.[9]

By bringing charges against a company about a specific event in a specific place, NGOs can play up crises and emphasize the urgency of the situation and how it can and will negatively impact the company. Moreover, with a specific crisis to reference, NGOs can point to real consequences, making the problem more accessible for the consumer audience. NGOs have no coercive power over the decisions made by corporations or governments and as a result must rely on the state or company to implement the changes that the NGO advocates for. In order to be influential, NGOs must work through indirect channels and use the company's consumer basis or government partners for leverage when negotiating with MNCs.[10] By providing consumers with information about the MNC's practices in a developing country, the NGO can potentially reduce the profits the MNC receives. If the NGO is successful in convincing buyers to reprimand a specific corporation through their buying decisions, the NGO gets leverage over the corporation. The leverage, although not a tangible or quantifiable asset, is a very real part of the power relationship. Profits are a point of vulnerability because reductions in profits result in less money to give the host government and any change in circumstance threatens stability.

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[9] Peter L. Brill and Richard Worth, *The Four Levers of Corporate Change* (Boston: American Management Association, 1997).

[10] Keck and Sikink, *Activist Beyond Borders.*

By bringing information about an MNC's questionable dealings and sub-standard practices back to the company's consumers, the NGO threatens overall profit and could potentially compel MNC to take note of its criticisms.[11] NGOs act as catalysts, bringing the public's attention to the worst cases of corruption and demonstrating to MNCs how these practices negatively impact the company.

In order to protect its profits and its foreign operations, the corporation must follow at least some of the NGO's suggestions on how to better its practices in the developing country. However, the NGO's limited influence and lack of coercive capacity discourage the MNC from making any more than a superficial effort toward change, with the rationale that the NGO will eventually wear out its public welcome and lose consumer support. Following the exposure of a corporation's poor practices, the NGO loses control, as consumers must decide whether or not the NGO's reports are important enough for them to change their consumption patterns. Because of this limited point of pressure, MNCs have often ignored NGOs when consumers do not respond enthusiastically to NGO reporting and no crisis is created for the company. The NGOs do not have the capacity for long-term monitoring so they must focus on worst case examples, using what limited time frame they have to make an impact on buyers.[12] Moreover, NGOs struggle to compel MNCs to make long-term improvements because once the corporation has dealt with the greatest issue at hand, the NGO must move on to other pressing issues. This paper will also examine the dynamics between NGOs and host

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[11] Donald H. Schepers, "The Impact of NGO Network Conflict on the Corporate Social Responsibility Strategies of Multinational Corporations," *Business Society* 45 (2006):282-299.

[12] Meghan Shaughnessy, "The UNGC and the Continuing Debate About the Effectiveness of Corporate Voluntary Codes of Conduct," *Journal of International Environmental Law and Policy* (2001).

governments because without a consumer base, the NGO is unable to leverage the government, reducing the NGO's overall ability to bring about change, especially change that is sustained through the long-term.

Continued Improvement

Do NGOs ensure that companies will continue to improve their policies and not simply revert back to substandard practices? How is it possible, if at all, for NGOs to create a crisis situation that compels companies to change their priorities and embrace long-term sustainability considerations? Recent literature on international cooperation suggests that social learning and cooperation (SLC) initiatives are the newest solution to this problem. SLC initiatives are those that focus on "bridging the differences between business, government, and community-based organizations,"[13] building cooperative networks between these groups with the goal of collaborative problem solving. SLC initiatives emphasize that all three groups have different goals and strives to find solutions that accommodate these differing objectives in a productive way.

SLC initiatives establish a system of collective learning that can be classified into three categories: single-, double-, and triple-loop learning.[14] With each loop of learning there is a deepening of cooperation and understanding in addition to increasingly significant behavioral changes for all participants. By engaging a corporation in a cycle of learning, the MNC's sensitivity to NGO complaints is heightened because the NGO is now communicating directly with the MNC and not simply applying indirect pressure

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[13] Steven Waddell, *Social Learning and Change* (Sheffield : Greenleaf Pub., 2005).
[14] Waddell, op. cir.

through consumers. Participation of both NGOs and MNCs in SLC initiatives brings both groups to a common level and facilitates constructive conversation by diffusing the hostility created by NGO's attacks on corporate profits. As a result of this changed dynamic, the NGO-MNC relationship is likely to be far more productive than temporary operational changes that take place in the single-loop learning.

Single-loop learning refers to the process of error correction within the organization, in which members connect operational outcomes with the organization's overall strategy. When there are errors within the system, single-loop learning occurs as individuals detect problems with the system and make small adjustments so as to improve effectiveness without altering the fundamental theories and assumptions behind practice. The main objective of single-loop learning is to increase efficacy and efficiency in corporate practice but not to disrupt the underlying institutional structures. This occurs when companies engage in public relations oriented damage control politics after a crisis, but do not take the opportunity to adjust organizational structures to prevent future incidents.

Double-loop learning is an extension of single-loop learning because the organization strives to correct the error within its operation but also works to restructure basic strategies and assumptions that bring about these problems. This learning process connects detection of error to practical strategies as well as the norms that dictate these strategies, calling into question fundamental assumptions on which organizational behavior is based. For MNCs, double-loop learning would mean reacting to a crisis through more than public relations work.[15] In this learning system, the MNC would go beyond damage control and would do a critical self-evaluation, resolving incompatible organizational norms like profit maximization and sustainable development by setting new priorities and restructuring associated strategies and assumptions. Double-loop learning would bring about new institutional structures that reinforce a new value system reconciling the desire for profit and sustainability.

The final step in triple-loop learning requires even further destabilization of organizational norms. The second loop required a reshaping of values, but the third loop of learning pushes the organization to question even these new priorities. Isaacs describes the relationship between these two levels of learning by stating:

> Double-loop learning encourages learning for increasing effectiveness. Triple-loop learning is the learning that opens inquiry into underlying 'why's.' It is the learning that permits insight into the nature of paradigm itself, not merely an assessment of which paradigm is superior.[16]

Triple-loop learning goes beyond any questions of efficacy and pushes an organization to continually question their valuations so as to be in the best position to constantly improve and learn. While the fundamental set of assumptions on which the organization bases itself are reorganized in the second loop of learning, the third loop takes things a step further and questions whether or not these assumptions address the most pertinent issues. For a corporation this would mean questioning whether or not sustainability is a valid goal and if not, what other measures, beyond profit, are useful to understanding corporate success and efficacy. Does sustainability deal with the most pressing issues this company

[15] Chris Argyris and Donald Schon, *Organizational Learning: A Theory of Action Perspective* (Mass: Addison-Wesley Publishing Co., 1978).

[16] William N. Isaacs, "Taking Flight: Dialogue, Collaborative Thinking and Organizational Learning," *Organizational Dynamics*. 22, no. 2 (1993): 17

faces? Are their other frameworks or ways of looking at the situation that would result in greater benefits for corporations and stakeholders? The complete destabilization of underlying paradigms of thought as critical to the third-loop of learning because reaching this level of self analysis enables the corporation to continually improve its practices and establish mechanisms within the organization that will ensure this continual improvement.

SLC initiatives facilitate second and third-loop learning, subsequently making it far easier to alter the overall decision-making framework by making participants' visions of the future more congruent. SLC initiatives deal with conflict among MNCs, NGOs and governments in a unique and collaborative way, utilizing gradual change and value alignment as the basic tools of success. The host nation itself also participates in and benefits from the SLC initiatives because the partnership gives the host population more access not only to the developing country's government, but also to the MNC and interested NGOs. The MNC, prior to engagement, has little incentive to interact with its workers in the host country unless absolutely necessary, but the collective learning encouraged opens the company's doors to the ideas, complaints, and concerns of employees and communities in the host nation.

Similarly, host governments obtaining profits from extraction-based operations become isolated from their population as they depend on the MNC for support, not their own citizens. As a result, the government becomes insulated and unresponsive to the public's needs, a gap that is breached through NGO activism that represents the needs of the local population. Through SLC initiatives, the host country's public no longer has to rely on the international NGOs to lobby the government for them, but gains access to the host government through grass-roots community groups as these groups are direct participants in the SLC activities.[17] The literature on SLC initiatives is relatively scarce as they are new to the international community, but this paper will examine the impact of such an initiative on an actual MNC-NGO-government relationship by using a case study as the grounds for evaluating the effectiveness of SLC methods of inter-sectoral collaboration

Methodology

The method by which I will address these questions of NGO impact, the necessity of crisis and the efficacy of SLC initiatives, is through a series of case studies aimed at illustrating several different situations. The three cases on which I will focus are Exxon's coal mine in Colombia, BHP's gold and copper mine in Papua New Guinea, and Shell's oil extraction operations in Nigeria. These three cases concern multinational corporations based in industrialized nations, the United States, Australia, and Europe respectively, and which operate in some of the world's least developed countries. In each case there is a clear instance of government-business collusion which creates a situation in which the corporations and governments act irresponsibly, causing social and environmental crises. The first case highlights a situation in which there is no crisis around which can to base a campaign. The example of Exxon in Colombia shows the limitations that NGOs face in wielding influence when there is no crisis with which to pressure the corporation,

[17] Waddell, op. cit.

providing insight into why NGO efforts in this case were unsuccessful and corporate practices remained poor. This study will highlight the shortcomings of NGO advocacy, focusing on the problems associated with the indirect methods of influence on which NGOs rely.

The second case study highlights BHP and its mining operation in Papua New Guinea. The environmental destruction caused by the Ok Tedi Mine unified the indigenous people and several international NGOs in a campaign against BHP. NGOs were able to use the plight of the indigenous people as the basis for a lawsuit against BHP in the Australian court system. It was only by bringing the lawsuit to trail and bringing BHP under international scrutiny that NGOs were able to create a crisis situation that the company could not ignore. However, the NGO's campaign had very limited long-term impact as BHP made some efforts at compensation, but soon thereafter, cashed out of the investment completely so as to end its obligation to the affected population. This example emphasizes how MNC-NGO relationships are unproductive when they remain largely adversarial. Without consistent engagement between these two groups, the dynamic will not change and no progress toward sustained improvements in corporate practice will take place.

The third case study follows an extremely successful NGO campaign against Dutch Royal Shell in which several dramatic events enable NGOs to create a frenzied media attack on the company and an undeniable crisis situation. This crisis becomes a catalyst for change within the corporation and although immediate changes were slow to come, continued NGO pressure compelled the corporation to push beyond superficial changes and into deeper levels of learning. Shell also opted to join a social learning and cooperation initiative as a result of the sustained public pressure, and the impact of participation in SLC will be central to the case's analysis. Changes in the relationship between Shell, NGOs, and the Nigerian government because of SLC will be explicated alongside an assessment of how this initiative help to change the relationship dynamic between participants, ultimately making it possible for Shell to create long-term changes in corporate mentality, significantly improving corporate practice and policy.

What's Ahead

The following chapter of this paper will contain a review of current academic opinion regarding the role of NGOs in the international arena, focusing on their capabilities and means of influence more than the question of their importance. After examining what means are available to them, I will review the literature regarding their interactions with multinational corporations from the extractive industry and the resource-rich developing states in which those companies operate. The literature review will then move on to the various understandings of cooperation among companies, NGOs and governments and how different schools of thought on corporate responsibility and sustainable development have played a part in the generation of social learning and cooperation strategies for improving extractive companies' environmental practices. Chapter three will address the methodology employed in this paper. It will justify use of qualitative case study analysis and explain the reason behind each case selected. This chapter will also present the questions this paper answers more specifically, defining terms and variables that have a direct impact on the overall argument. Chapters four, five and six will cover the three case studies discussed, demonstrating the increasing complexity of NGO-MNC relationships as NGOs increase their leverage with crisis situations and their continual influence with SLC initiatives. Chapter seven will synthesize the lessons that the case studies illustrated and will summarize the conclusions that are being drawn based on these qualitative studies.

Chapter 2
Literature Review

Non-state Actors in International Relations Theory

Academic discussion of non-governmental organizations as a variable in international politics is a relatively new addition to theoretical debates in the field of international relations. Traditionally, Realist theory has been the dominant understanding of how states interact in the global arena, reducing foreign policy decisions to straightforward calculations of self-interest. The Realist understanding of international relations is founded on the basic assumptions that states are unitary and rational actors that, regardless of domestic circumstances, will always make decisions that promote the "ideal outcome [which is] to end up as the hegemon in the system [because] survival would then be almost guaranteed."[1] This interpretation of international relations not only excludes any possibility of transnational cooperation around issues that are not directly self-serving but also excludes any entities other than states from examination. Realists do not recognize non-state actors as influential participants in shaping global affairs and foreign policy, and as a result, this traditional understanding of international relations is not applicable to this study which focuses on the impacts of extra-governmental actors.

Liberalism, developed in the early twentieth century, differed from Realism in that it recognized the importance of meaningful cooperation between states and made room for more attention to be paid to transnational activities beyond direct state authority. However, like Realism, Liberalism still emphasizes the state as primary, considering

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[1] John J. Mearsheimer, "The False Promises of International Institutions" *International Security,* 19 no. 3 (1994/95): 9.

intergovernmental organizations exclusively when discussing non-state international actors. As a result, Liberalism is also an unsatisfactory theoretical framework for understanding the role of non-governmental entities in international affairs.[2] It was not until the second half of the twentieth century that companies and advocacy groups began to expand globally with shocking rapidity, making it impossible to exclude these actors any longer from academic debates on international relations.

In the 1960s and 1970s, academic debates began to challenge traditional state-centric understandings of global affairs to include transnational actors that were becoming increasingly prominent in the global community. This literature differed from traditional Realist and Liberalism writing because the new interpretations of international relations were not strict predictive theories of world affairs, but instead, presented new ways of understanding globalization and transnational relations. Often times, constructivism is presented as a theory of international relations, but as many academics such as Sklair and Risse argue, Constructivism is a method for understanding the study of international relations, and not the actual relations themselves. The Constructivist mindset "sees the world as a project under construction, as becoming rather than being,"[3] emphasizing the importance of interests, identities, and roles in forming a socially constructed understanding of the international system. Because the concept of the global system is entirely constructed by social norms, it is in constant flux and cannot be the sole indicator of a government's behavior.[4] This is directly contradictory to Realist theory

[2] Shamima Ahmed, *NGOs in International Politics* (Bloomfield, CT: Kumarian Press, Inc., 2006).
[3] Emanuel Adler, "Constructivism and International Relations," in *Handbook of Intl Relations*, ed. Walter Carlsnaes, Thomas Risse, and Beth Simmons (London: SAGE Publications, 2002), 95.
[4] Ahmed, op. cit.

because it argues that anarchy, which defines the Realist state's perpetual insecurity and desire for hegemony, is not permanent and is actually subject to change. With this philosophical mindset, Constructivism encouraged the growth of transnational approaches to international relations.

Risse traces the roots of transnational relations approaches to international relations back to the Kantian notion of perpetual peace. Risse cites Kant's argument that there is a causal relationship between economic interdependence and world peace as the spirit of trade overwhelms any inclinations toward war. Interdependence theory was formalized in the 1970s and asserted that transnational investment gives states common interests and goals, increasing security and stability between them and increasing the potential for cooperation. Along with this insight came a short-lived theory of Transnationalism that concentrated on non-governmental organizations and activists, making the assertion that the proliferation of NGOs makes them a necessary consideration in the study of foreign policy decisions, especially in the areas where NGO activism is most virulent.

These theories were a step in the right direction away from state-centric interpretations of international relations but were incomplete and were further researched as NGOs and MNCs became more important players in global politics.[5] In the 1980s, the development of Constructivism brought Kant's ideas back into debates, and as academics focused on social and ideational aspect of cross-border interactions between non-state entities and Western powers. The fall of the Soviet Union furthered doubt about the

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[5] Ahmed, op. cit.

accuracy of structural, state-centric understandings of international relations and gave more credibility to intellectual pursuits regarding the influence of non-state actors.

Leslie Sklair reiterates Risse's point that the transnational approaches to international politics of today are not specific theories, but more accurately understood as "injunctions to researchers to pay more attention to non-government entities particularly when they are interacting with governments."[6] Risse points out that the transnational relations school of thought has changed since the 1970 as Constructivism has visibly influenced recent dialogue. Moreover, current academics focus on globalization more so than simply MNCs in global politics, emphasizing interactions between states and parts of transnational society, careful not to ignore states all together.[7] Sklair demonstrates this change in Transnationalism, placing his approach to international relations between the internationalist and globalist mentalities. Transnationalism takes note of the international school of thought and recognized the important role that states still maintain and also understands the globalist emphasis on a nearly completed global project which enables real cooperation between state and non-state actors. However, Sklair emphasizes globalizing forces and institutions, and in doing so modifies both of these positions to argue that the state cannot be ignored but the basic conception of globalization should be based on understanding transnational practices and the impacts transnational actors have on states and societies.[8] With this conception of the transnational relations approach to describing globalization, the case studies to follow will illustrate how non-state actors are

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[6] Leslie Sklair, *Globalization: Capitalism and Its Alternatives,* 3rd ed. (Oxford: Oxford University Press, 2002), 6.

[7] Thomas Risse, "Transnational Actors and World Politics." *Handbook of International Relations,* ed. Walter Carlsnaes, Thomas Risse, and Beth Simmons (London: SAGE Publications, 2002), 257.

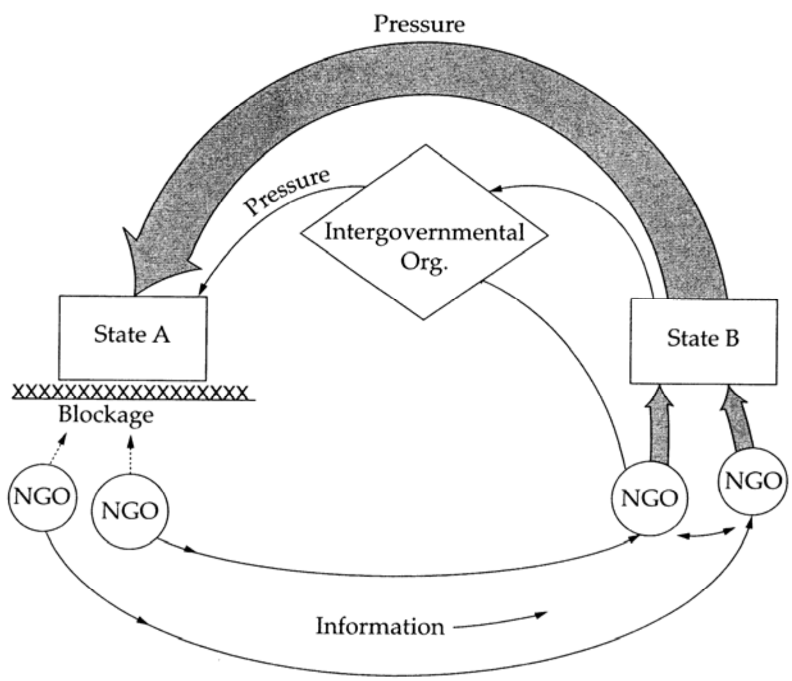
[8] Sklair, op. cit., 7.

influential players on the global stage and how their interactions impact government perceptions and decisions.

Non-Governmental Organizations and Governments

Recently, there has been much research into the question of how NGOs actually influence world affairs, given the fact that they lack any form of coercive power. This paper, based on the theoretical understanding of international relations discussed above, takes the view that NGOs and MNCs have important impacts on state as well as non-state actors in the international context. Keck and Sikkink present some of the most commonly cited description of NGO tools for political influence and diagram how many advocacy groups exert pressure on governments with their Boomerang Model.[9]

Figure 1: Keck and Sikkink's Boomerang Model



[9] Margaret Keck and Kathryn Sikkink, *Activists Beyond Borders* (Ithaca, NY: Cornell University Press, 1998) 13.

Their research discusses transnational advocacy networks, which are defined broadly to include all actors involved in the advocacy process, including communities, supportive individuals in government and NGOs. Their findings regarding the powers of transnational advocacy networks are also directly applicable to NGOs alone, as NGOs are without exception the major actor within the advocacy network. NGOs, according to Keck and Sikkink, have four political tools to use in their efforts to impact government decisions: information politics, symbolic politics, leverage politics and accountability politics.[10] Because NGOs lack coercive power, they depend on persuasion to be effective, and these political tools are all part of their persuasive abilities. By spreading information quickly and broadly, reframing issues so they are better understood by different cultures, encouraging stronger political actors to pressure weaker ones, and monitoring organization activities relative to their public commitments, NGOs recruit public support and mobilize a larger group in their advocacy efforts.

For NGOs, the number of supporters matters, as does the identity of those supporters. When dealing with governments, NGOs must work through the international community or multinational corporations to alter developing state behavior as such states are generally less responsive to domestic popular pressure. The NGO cannot directly impact the host government because there is no way, short of organizing a full revolution of the people, that an NGO can get leverage over a developing state. This indirect approach to advocacy is what Keck and Sikkink term the Boomerang Effect. In this model, domestic NGOs bypass their state and directly search out international allies to try

[10] Keck and Sikkink, op. cit.

to bring pressure on their states from outside.[11] The Boomerang Effect demonstrates how NGOs can have a significant impact on international relations as advocacy efforts have implications for inter-governmental relations. Internationally, NGOs are considered to play political roles including lobbying, agenda setting, monitoring over other actors, as well as education and awareness-raising.[12] Because of the political tools that NGOs employ, they are in the ideal position to shape political debates between international actors. By bringing expert information into policy discussions and also reporting back on how well past policies are implemented and followed, NGOs are vital to the learning process that takes place at the international level.

Extractive Industry Multinational Corporations and Host Governments

As mentioned before, the Interdependence theory and early Transnationalist thought focused on the interactions between corporations and governments and the effects of economic relations on political decisions. However, in this paper, the question is not whether or not investment discourages war with other states, but how this investment impacts the government's domestic policies and its relations with the host population. For insight into this question, the discussion must move from international relations theory to theories discussing the impact of foreign investment on developing states, more specifically, the Resource Cure phenomenon and Rentier State thesis. The past half century has led many researchers to question how natural resources impact the economic and political growth of developing states. More often than not, the political and

[11] Keck and Sikkink, op. cit.
[12] Ahmed, op. cit..

economic development of these countries rich in resources becomes stunted as wealth and power are concentrated in the hands of a small group of elites who control the government and access to the resources. One would think that a country with an abundant supply of valuable natural resources would be wealthy and prosperous, but in actuality the opposite is true, and these developing states are plagued by what many refer to as the "resource curse."[13] The resource curse refers to high correlation that has been shown in numerous studies between both non-democratic forms of government and poor economic performance in countries known for their oil.[14]

The Rentier State thesis is theory that provides a causal explanation for the resource curse phenomenon, discussing how the income the state receives from extractive operations is detrimental to the development of democratic and development-oriented societies. Douglas Yates explores the components of the Rentier State thesis and discussed four criteria for the thesis to be applicable. First, to be considered a rentier state, a government must receive a substantial amount of external economic rent on a regular basis. The economy must be characterized by the fact that rent, contributed from external sources, must play a major role in the state's economy. Moreover, there are only to be a few sources engaged in the generation of rent and the government must be the principle recipient of the rent.[15]

Umwe Ite, in his discussion of Shell's operations in Nigeria, implies that the Rentier States thesis applies only to oil-dependent states, referring to the fact that Hossein

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[13] Uwem Ite, "Poverty Reduction in Resource-Rich Developing Countries: What Do Multinationals Have to do With It?" *Journal of International Development,* 17 (2005): 913-929.

[14] Ibid., 916.

[15] D.A. Yates, *The Rentier State in Africa: Oil Rent Dependency and Neo-colonialism in the Republic of Gabon*, (Trenton, New Jersey: Africa World Press, 1996), 11-14.

Mahdawy, who originally coined the term "Rentier State" focused his discussion on Iran in the 1970s. However, Mahdawy himself does not suggest that this thesis applies only to Middle Eastern or oil-exporting states and further broadens the definition by stating that it is arbitrary at what point a state is categorized as a rentier state.[16] With this open definition of Reniter State, this thesis is applicable to the argument made in this paper about the relationship between MNCs and host governments and how MNC actions can and do impact host government policy decisions. Because of the large presence of extractive industries in developing countries, governments lose their sense of dependence on the national population, leaving people with little leverage to demand accountability. A gap between the governing regime and the national population grows and the goal of improving the lives of national population becomes secondary to improving the national economy and government's wealth.

In all extractive industries, both the government and MNCs have an interest in maintaining stability and feel in no way accountable to the national population, and because of the dynamics of this relationship, corruption quickly takes root.[17] Extractive operations are capital-intensive investments, and developing countries simply do not have the monetary resources to utilize their natural resources and must rely on foreign investors to fulfill this role. Government officials need to court investment to ensure the flow of money into their country and can use this money to protect their positions of

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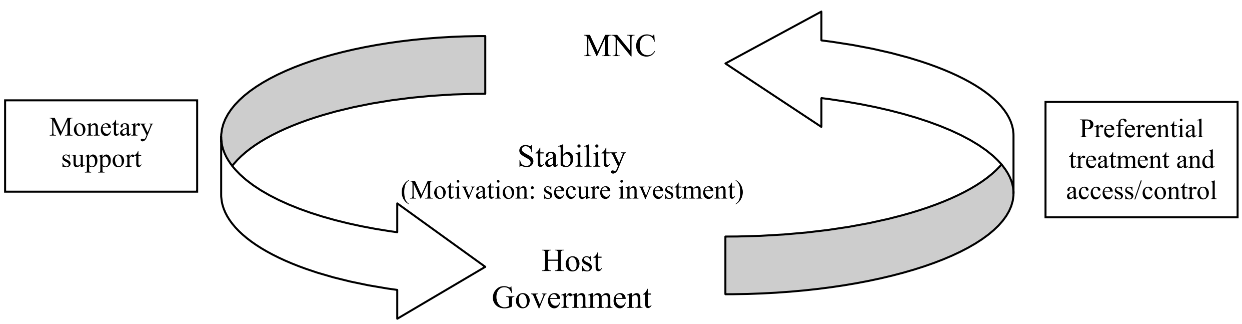
[16] Ibid., 11.

[17] C. Leite and J. Weidman. *Does Mother Nature Corrupt? Natural Resources, Corruption and Economic Growth.* IMF Working Paper WP/99/85.

power in government.[18] The income from rent payments as well as less than legal transfers which are very common in these instances help to solidify the host government's power and can be used to further secure their regime, enabling them to buy favors and support from other, potentially threatening parts of society. Similarly, the MNC depends on stability and security for its investment, and it is in the company's interest to buy a level of influence and control over government. By keeping the same government officials in power and indebted to the MNC, regulations and trade agreements will not change, ensuring price stability and consistently high profits.[19] Once these relationships are established, the corruption is self-reinforcing as both sides are inclined to protect the arrangement that benefits them both.

Figure 2: MNC-Government Relationship



Both governments and MNCs consider the well-being of the nation as a secondary concern and without regulations to protect them it is not surprising that many companies cut costs at this point in the supply chain by underpaying employees, forgoing what the industrialized world considers standard health and safety precautions, and recklessly

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[18] Eleanor O'Higgins, "Corruption, Underdevelopment, and Extractive Resource Industries: Addressing the Vicious Cycle," *Business Ethics Quarterly,* 16 (2006).

[19] Leite and Weidman, op. cit.

exploiting the environment. Although decisions like these do not directly impact the company's relationship with the government, it is because of these poor practices and that external actors begin to take notice and question the MNC-government relationship. This proves to be a problem for many MNCs in extractive industries because the size of the company, the apparent political problems, and the obvious environmental and social impacts make these companies targets for non-governmental organizations (NGOs) looking to advocate for the host country's population as a whole. The advocacy groups represent the much neglected interests of the national population.[20] The NGO's main goal is to elevate the national well-being to the first priority by dramatically changing the current situation, and this goal brings advocates into direct oppositions with government and business interests. NGOs threaten the stability on which the government-MNC relationship is based, and MNCs would just as soon ignore the NGOs if doing so would have no negative impact; however, it is the NGO's ability to threaten the MNC's profit that makes the corporations listen.

Non-governmental Organizations and Multinational Corporations

To be effective, NGOs must target the portion of the population to which the organization is accountable, which in the case of corporations, is the consumer in generally European, American or Japanese markets. NGOs provide consumers with information about poor corporate practice, framed in terms of human rights violations, environmental degradation, etc., and gain leverage over the MNC by threatening its

[20] Keck and Sikkink, op. cit.

profits. Like their campaigns against governments, NGOs possess four political tools: information politics, symbolic politics, leverage politics and accountability politics.[21] These tools are used in the same way against MNCs as they are against governments, but in this case, the Boomerang Effect is slightly different. Instead of working through other governments to implore MNCs to alter their politics, the NGOs work through consumers, attacking the corporation where it is most vulnerable.

Brand names make corporations particularly susceptible to NGO attacks because consumers can more easily support the campaign with buying decisions.[22] NGOs are limited in their capacity to pressure corporations because following the exposure of a corporation's poor practices, it is up to the consumers to make a conscious effort to support the NGO's campaign by altering buying patters. Because of this limited point of pressure, NGOs are often ignored by MNCs in cases where the campaign fails to create a crisis situation for the company. NGOs, because of their limited resources, must focus their energies on publicizing the most sensational offences so as to make an impact on buyers quickly and forcefully.[23]

By virtue of challenging the status quo and the state of corporate profits, NGOs and MNC establish an inherently adversarial relationship. The MNC-host government relationship is based largely on the need for stability, and the NGO's campaign challenges that status quo by potentially threatening the security of that investment. Both the MNC and government have much to lose if their relationship falls apart; whether it is

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[21] Keck and Sikkink, op. cit.

[22] Johan Graaland and Bert van de Ven, "The Strategic and Moral Motivation for Corporate Social Responsibility," *Journal of Corporate Citizenship*, 22(2006): 111-123.

[23] William DeMars, *NGOs and Transnational Networks: Wild Cards in World Politics* (Ann Arbor, MI: Pluto Press, 2005).

the complete withdrawal of investment or nationalization of the project, neither side is eager to disrupt calm waters. The NGO, in launching a campaign about the nature and consequences of this relationship, destabilizes the situation and becomes a problem for the MNC.[24] This dynamic fosters hostility and discourages cooperation between MNC and NGOs, preventing any long-term change or improvements in corporate practice from being developed.

To understand how NGOs act as the catalyst for corporate change, it is important to look into organizational literature from the field of sociology. Brill and Worth discuss the dynamics of organizational learning, which is of interest here because the improvements in corporate practices that NGOs are calling for require that the corporation embrace the lessons of sustainability and alter the way their organization thinks so as to act in accordance with these principles. Organizational change, Brill and Worth point out, begins only following a crisis of some sort. A crisis, in this context, is defined as a problem requiring immediate attention and in some immediate way, impacting the company negatively to the point that the company cannot longer ignore the situation. When change occurs without the catalyst of a crisis, which does at times happen, it is generally unsuccessful because the problems and internal contradictions that the change is aiming to deal with, are at that point misunderstood, making change very difficult. However, in light of a crisis situation, “suddenly alternatives that seemed unthinkable only a short time earlier appears eminently practical. The specter of impending disaster shifts all the parameters and forces people into a ‘let’s try anything’

[24] Donald H. Schepers, “The Impact of NGO Network Conflict on the Corporate Social Responsibility Strategies of Multinational Corporations,” *Business Society* 45 (2006):282-299.

mentality, which is frequently the necessary prerequisite for change."[25] The crisis creates the urgency and desperation necessary to push an organization into action quickly and also generally brings new leadership into power, furthering reform efforts. The 'let's try anything mentality' makes companies more receptive to advice, even from those they perceive as enemies, the NGOs, and this interaction is essential to transforming the previously adversarial dynamic and beginning the social learning and cooperation that is critical to long term changes in corporate practice.

The triple-loop learning system mentioned in the introductory chapter is the method Waddell cites as the process organizations go through when engaging in social learning and cooperation.[26] As noted earlier, learning is generally initiated by a period of crisis or a breakdown in the current practice. Because of the problem, the organization responds through internal assessment and structural changes with the goal of correcting internal errors that caused the problem initially.[27] The NGO plays the role of the catalyst in this learning process, bringing the problem to the organization's attention and creation the original crisis that the organization must respond to. At this point the relationship is often times still adversarial and the learning that takes place does not guarantee long-term improvement, but instead is focused on immediate remedies. The transformation of the NGO-MNC relationship from hostile to constructive generally occurs in second-loop learning after the initial crisis has been addressed.

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[25] Peter L. Brill and Richard Worth, *The Four Levers of Corporate Change* (Boston: American Management Association, 1997), 20.

[26] Waddell, *Social Learning and Change* (Sheffield: Greenleaf Pub., 2005).

[27] Chris Argyris and Donald Schon, *Organizational Learning: A Theory of Action Perspective* (Mass: Addison-Wesley Publishing Co., 1978).

In second-loop learning, the goal is not simply to change enough to solve problems, but actually change the fundamental assumptions that create the foundations of organizational decision making. The inquiry that takes place at this level of learning seeks out the inconsistencies in organizational norms and establishes new priorities that will dramatically alter the way in which the company makes strategic choices. Double-loop learning is not possible without the inclusion of NGOs, which are valuable resources holding vast amounts of technical information. Waddell outlines the different motivations for action for business, governments and civil society so as to highlight the fact that learning between these groups faces the inherent challenge of overcoming basic differences. Sustainability issues require developing some common understandings and value judgments between these groups, and this is what Waddell calls inter-sectoral collaboration. These collaborations facilitate communication across sectoral lines as it responds to "the administrative logic of government, the development logic of civil society and the managerial logic of business."[28] The second-loop of learning is the stage at which these differences are examined and analyzed, and the organization makes structural adjustments so as to reflect changes in priorities, and fostering a collaborative relationship with the NGO.

Waddell discusses social learning and cooperation as relevant to organization learning in the context of MNC and NGO relations because this concept deals with understanding how relationships between groups are re-structured. In Waddell's discussion of SLC initiatives, he focuses on the fact that an organization is often resistant

[28] Waddell, op. cit., 97

to change because of its unrecognized assumptions and internal contradictions, and it is not until the organization is challenged that these assumptions can be addressed and altered. This is the core concept behind the double-loop learning process as the identification and alteration of these assumptions is the essence of organization learning. Through this learning process, there is a fundamental transformation the way in which groups see each other, as MNCs and NGOs learn to perceive each other as a beneficial resource rather than a hostile enemy. The concept of SLC focuses on understanding learning and how the integration of new logics into institutional apparatuses alters one's world view and subsequently the core values that direct action. Waddell discusses the importance of SLC initiatives in the study of globalization and MNC-NGO interactions, emphasizing the fact that learning takes place within organizations in the form of values, behavior, beliefs and structures. This highlights the fact that organizational learning is a complex and difficult process, and one that takes time in order to fully develop.

Second-loop learning looks beyond finding short-term solutions to crisis situations and to finding and fixing the organizational inconsistencies that made the company vulnerable to the crisis in the first place. Third-loop learning is the pinnacle of the SLC process and focuses on establishing long-term mechanisms for continual learning within the organization. Triple-loop learning goes beyond questions of efficacy and pushes organizations to continually question its valuations so as to be in the best position to constantly improve and learn, taking the corporation a step further to question whether or not these assumptions address the most pertinent issues.[29] The third-loop requires the establishment of mechanisms that facilitate continual changes and improvements through the installation of NGO consultants within the corporate decision-making structure. This stage takes NGO consultation beyond the second-loop level of exchange because it actually integrates stakeholder opinions into the corporate infrastructure and facilitates regular meetings that continually question and challenge corporate priorities. SLC initiatives in their true form embody this third-loop learning, creating communities of practice which are "joint-enterprises that are continually renegotiated, binding members into a social entity with a shared repertoire of communal resources."[30] By developing these intimate relationships between corporations and civil society, SLC initiatives transform corporate priorities, ensuring improvements in practice and long-term contributions to the sustainable development movement.

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[29] William N. Isaacs, "Taking Flight: Dialogue, Collaborative Thinking and Organizational Learning," *Organizational Dynamics*. 22, no. 2 (1993): 24-39.

[30] Waddell, op. cit., 120-139.

Chapter 3
Research Methods

I have opted to utilize case study analysis for this research project because it is the best method for dissecting and understanding the complex inter-sectoral interactions between NGOs, MNCs, and governments. Andrew Bennett discusses the advantages of using case study analysis over quantitative methods, and specifically mentions that case studies are much better at "examining intervening variables in individual cases to make inferences on which causal mechanisms may have been at work… and using contingent generalization to model complex relationships."[1] Both of these elements of research are extremely important to this study in particular because the hypotheses are focused on the impacts of intervening variables on the dependent variable. Moreover, the subjects of analysis—the NGOs, MNCs, and governments—cannot be seen as acting independently and free of external pressure. The main goal of this paper is to detail the interactions among these groups and as a result, understand the specific dynamics between individual actors. This meticulous examination of case studies will provide insight into how actors respond to each other, and from this, we will be able to glean insights that would be lost in statistical generalizations. The way to evaluate each actor's decisions is in the context of it being a reaction to another actor, and it is only through the use of a case study that we can achieve this level of contextualized analysis. The purpose of this study is to see

[1] Andrew Bennett, "Case Study Methods: Design, Use, and Comparative Advantage," in *Models, Numbers, and Cases: Methods for Studying International Relations,* ed. Sprintz & Wolinsky-Nahmias, (Ann Arbor, MI: University of Michigan Press, 2004), 19.

the essence of difference between the actors' relationships with one another and how this impacts their ability to cooperate.

The complex interactions that take place between NGOs, MNCs, and governments cannot be summed up by counting the number of articles written, reports published, or legislative policies passed. It is impossible to understand the relationship dynamics between these actors without looking at individual corporations and advocacy groups and using their specific experiences to learn about the broader experience of similarly situated actors. The variables that are being used in this study to analyze and characterize these interactions are intentionally and necessarily vague. The concepts of NGO monitoring, crisis situation and corporate behavioral change cannot be easily quantified. Moreover, even if proxy indicators like the number of sustainability reports or independent audits conducted were used to gauge changes in corporate behavior, the resulting statistical analysis would be extremely superficial. These numbers would provide no indication of how substantive these reports were and would not provide enough information from which to make an assessment regarding the depth or breadth of corporate change.

Bennett points out that the case study methodology enable researches to increase their level of construct validity which refers to "the ability to measure in a case the indicators that best represent the theoretical concept we intend to measure."[2] No proxy indicators are necessary, and researchers can define and analyze the variables of interest directly. The case study methodology allows us to be flexible with our definitions and

[2] Andrew Bennett, op. cit.

tailor variable terms to fit the context of each specific case being examined. This improves not only our overall understanding of the relationship dynamic between actors but also provides the opportunity to better convey to the reader how each specific situation relates to the theory. "Qualitative data relies on words, especially nouns and adjectives that convey what exists"[3] and by using flexible definitions specified for each case, it is possible to best complete this transfer of information through words.

The flexibility inherent to case study methodology has several other advantages. Diane Vaughn outlines these benefits, citing that case studies allow the researcher to vary levels of analysis, shifting units of analysis to produce qualitatively different information and help elaborate on theories or models of complex systems that are difficult to study.[4] For our purposes in this paper, our ability to break down a complex multi-layered relationship is extremely important, and our case study model enables us to do this in a way that would be impossible with quantitative analysis. Harry Eckstein reinforces this idea stating that case study analysis is most valuable "in regard to those phenomena with which the subfield of 'comparative' politics is most associated: macro-political phenomena, that is, units of political study of considerable magnitude or complexity."[5]

Critics of case study analysis attack it largely on three major issues; lack of representativness, the risk indeterminacy, and selection bias. Lack of representativeness is a concern that many critics cite when discussing case studies, questioning the effect to

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[3] Paul S. Gray, et al., *The Research Imagination,* (New York: Cambridge Univ. Press, 2007), 42.

[4] Diane Vaughan, "Theory Elaboration: the Heuristics of Case Analysis," *What is a Case? Exploring the Foundations of Social Inquiry,* ed. Charles C. Ragin & Howard S. Becker, (Cambridge: Cambridge Univ. Press, 1992), 176-177.

[5] Harry Eckstien, "Case Study and Theory in Political Science." *Case Study Method: Key Issues, Key Texts,* ed. Roger Gomm, Martyn Hammersley, and Peter Foster. (London: SAGE Publications, 2000), 119-120.

which knowledge derived from a careful examination of a small number of cases can be more widely applicable. Case studies look at the subtle undertones of complex interactions, focusing on intervening variables and other factors that overarching theories had not addressed. Although the omitted variables or hypotheses identified in case studies turn out to be significant factors only in isolated instances, there is still value in their discovery. Bennett notes that one of the major advantages of case studies is that the knowledge they produce enables researchers to model more complex relationships and more fully understand them. This type of knowledge can be generalized if not in the form of a new theory, as another possible avenue of research or another aspect of a broader research question.

The second criticism questions a case study's risk of indeterminacy. Indeterminacy refers to the inability to exclude all but one explanation of a case and establish a single causal relationship through process-tracing evidence produced in a case study. Bennett concedes that case studies do not always adequately establish a singular causal relationship, but points out that case studies are able to narrow the possible number of explanations for a phenomenon.[6] This criticism is not applicable only to qualitative research, as the same situation is possible with quantitative research. Moreover, a case study's ability to narrow the field of possible reasons provides some insight and can also provide further information about previously neglected variables, helping the theory-building process.

[6] Ibid., 43.

The final criticism of selection bias refers to a researcher's ability to pick and choose cases that only serve as support for the theory, inherently skewing the validity and wider applicability of the theory itself. Stanley Liberson acknowledges this shortcoming of case study analysis stating, "the empirical data gathered in the typical small-N study cannot tell us if a univariate deterministic cause is operating or if there are no interaction effects."[7] Moreover, Vaughn cites Glaser and Strauss who suggest that if cases are selected by a researcher who has already formatted a hypothesis or theory, the scholar is more likely to "force-fit" the case to the theory.[8] Researchers always enter projects with preconceived notions as a result of past work, and by acknowledging biases before engaging in the analysis researchers can best deal with issues of selection bias and force-fitting data. Case studies do not definitively prove or disprove hypotheses but, instead, they provide examples of instances in which theories hold true and can provide further insight into the relationships the theories seek to explain. Because case studies are not designed to be entirely objective reflections of universal truths, selection bias cannot be considered sufficient grounds for avoiding the case study methodology. The goal of this research project is not to prove definitively our causal hypotheses, but instead, the case studies are a tool for examining the complex relationships between NGOs, MNCs, and governments.

Vaughn gives the three justifications for case selection, including the fact the selected cases are potential critical cases that exemplify the theory, they vary in size and

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[7] Stanley Lieberson, "Small N's and Big Conclusions: An examination of the reasoning in comparative studies based on a small number of cases." *Case Study Method: Key Issues, Key Texts*. ed. Roger Gomm, Martyn Hammersley, and Peter Foster, (London: SAGE Publications, 2000), 217.

[8] Vaughn, op. cit., 177.

complexity or they vary in function and help maximize theoretical insight.[9] Vaughn's reasons for case selection emphasize the fact that case selection is clearly biased, but not in a negative way that detracts from the utility of case studies. The selection of the three cases used in this paper fits with Vaughn's justification as all three cases demonstrate how theory plays out in actual experience. Each of the case studies corresponds with one of the three hypotheses and enables us to look closely at a concrete example of the theory in action and in doing so, get a better understanding of the intervening variables of interest.

The three selected cases are similar in that they focus on extractive companies that are based out of the most developed states of the United States, the United Kingdom, and Australia. All three companies are transnational corporations that have operations in which they are at least majority owners in the developing states around the world including Colombia, Papua New Guinea, and Nigeria. These cases represent a variety of regional areas but are consistent in the multinational nature of the business venture and physical distance between the production site and the consumer population. I have opted to focus on extractive operations so as to maintain relative consistency in the sustainability issues associated with the extraction of natural resources, holding constant the bulk of issues most commonly addressed by NGOs. Moreover, the issue of Resource Curse applies to all three cases, and this factor heavily influences the relationship between the MNCs and host governments, creating unique conditions that must be dealt with in order to further development or cooperation. These critical cases vary in the

[9] Ibid., 175.

degree of cooperation and corporate change that takes place, and these variations enable us to closely examine what factors influence the development of corporate change and gain insight into how to facilitate organizational learning.

This study is based on the assumption that there is a causal relationship between NGO campaigns and corporate behavior. However, what is more interesting here are the intervening variables between the NGO campaign that increase the likelihood that the MNC will in fact make policy changes and implement them effectively for long-term change. The independent variable is the NGO campaign that initiates the chain of events. In the case that the NGO is unsuccessful in its efforts, the NGO is unable to create a crisis situation for the corporation; and without a crisis the organizational learning process is extremely unlikely to begin and the likelihood of change is almost non-existent. This is exemplified by Hypothesis 1 where the intervening variable, the crisis situation, is not present and there is a very low likelihood of improvements in corporate behavior.

Hypothesis 1: ***NGO campaign (IV) → no crisis (IntV) → ↓ likelihood of change (DV)***

The first case study of Exxon's Intercor operations in El Cerrejón, Colombia reflect this situation as Exxon never faced any sort of a crisis as a result of its deplorable actions against the local communities. The affected communities attempted protests through local organizations and even appealed to the Colombian judicial system with the assistance of NGO supporters.[10] Nonetheless, the local communities, not the company, were only ones facing a crisis, as Exxon could easily disregard the weak attempts at resistance and international calls for protest. Because there was no crisis and no threat to company profit, reputation or ability to produce, the company had no incentive to alter its practices and therefore demonstrated how extremely unlikely corporations are to improve practice without being externally compelled to do so.

Hypothesis 2: NGO campaign → crisis created (but no SLC) → ↑ likelihood of change

The second hypothesis I propose is in direct contrast to this situation as it deals with what happens when an NGO's campaign is successful in creating a crisis for the company. A crisis can come in several different forms but most commonly comes from catching the attention of those who have power and influence over the company, most often consumers or shareholders. A crisis, in this context, has a flexible definition and can mean any negative situation that is a direct result of NGO actions and creates a problem that the company is unable to ignore. There must be a threat of some sort of loss to the company - in profit, reputation, investment, etc.—so as to compel the company into action. The case of BHP in Papua New Guinea provides an example of a traditional form of activism that is not commonly associated with NGOs which are far better known for dramatic displays of popular protest.

[10] Remedios Fajardo Gomez and Armanda Pérez Araíjo, "Report on the Systematic Violations of the Human Rights by Exxon," Mines and Communities, http://www.minesandcommunities.org/Company/exxon01.htm (accessed Jan 9, 2008).

Legal action is another means for a NGO to create a crisis as happened in the case of BHP's OK Tedi Mine in Papua New Guinea. The local community groups worked in coalition with international NGOs, presenting their case against BHP in several international venues, posing a substantial threat to reputation.[11] These NGOs then engaged BHP in a formal lawsuit in the Australian courts, expanding the crisis of reputation and making it a legal and financial crisis for the company as well.[12] As mentioned before, crises are generally the essential catalyst for organizational learning to begin, and so in the NGO creating this situation the corporation is forced to respond in some way, even if it is only to correct the immediate problem.

In the case where a crisis situation occurs and the corporation takes it upon itself to diagnose and correct the problems without developing a constructive relationship with NGOs, the company is likely to make improvements in corporate practices. However, these changes are not likely to deal with forward-looking, long-term problems or address anything other than the immediate problems that gave rise to the crisis. In this situation, MNCs generally respond with single-loop learning strategies and do not invest much effort in creating a more productive NGO-MNC relationship. Corporations will often recruit NGO members to advise on the specific issues involved in the crisis but will ultimately act independent of the NGO concerns and end communication following the implementation of a short-term resolution. BHP's experience reflects this pattern of superficial learning and short-term solutions. Improvements in practice are not sufficient

[11] Peter Prince, "Bohopal, Bougainville and OK Tedi: Why Australia's Forum Non-Conveniens Approach is Better," *International and Comparative Law Quarterly,* 47(1998).

[12] Glenn Banks, "Mining and the Environment in Melanesia: Contemporary Debates Reviewed," *The Contemporary Pacific*, 14 (2002): 39–67.

to actually improve the situation or make the operation sustainable and the relationship with NGOs remains hostile, as these groups are not incorporated into corporate decision-making.

Hypothesis 3: ***NGO campaign → crisis created → SLC → ↑↑ likelihood of change***

The final hypothesis presents the situation in which a company responds to a crisis by engaging in a social learning and cooperation initiative, going beyond single-loop learning and putting itself into a situation where it is far more likely to make long-term improvements in corporate practice. During the crisis situation, a company can opt to deal with the issue largely autonomously, or it can recruit the support and expertise of the NGOs in formulating its plans for improvement. Although engaging with an NGO after experiencing a crisis as a result of its actions is a difficult and initially unappealing option, it can be extremely beneficial to the corporation's learning process. NGOs are rich resources of information and often have many plans for improvement, priorities of action, and contacts with the local and international community. By working with NGOs, a company can use these resources to quickly devise a plan of action to correct the immediate crisis and can more effectively plan larger organizational changes to support long-term improvements in practice and policy. The SLC initiative facilitates constructive interactions between NGOs, MNCs, and government and encourages organizational learning by supplying information and guidance in revaluations and reprioritizations.

Dutch Royal Shell's activities in the Niger Delta reached a crisis point in the mid-1990s after extensive NGO attention regarding human rights violations and poor environmental practices.[13] This NGO campaign created an unavoidable crisis that initiated single-loop learning process, as Shell made some minor changes in policy. However, the NGOs continued to criticize Shell's practices, and without any defense or actual improvements in the situation NGOs were criticizing, Shell decided to bring NGOs into decision-making processes and try to deal with these issues at the root, so as to end the current crisis and prevent future crises. Shell worked to establish genuine stakeholder engagement through reporting methods, community development programs, and membership in several SLC initiatives, most notably, Extractive Industry Transparency Initiative.[14] By actually integrating the formerly adversarial NGOs into the organizational learning process, Shell could engage in double-loop learning and work toward triple-loop learning. As a result of these decisions, Shell is a leader in corporate responsibility and sustainability, within the extractive sector.

The main objective of this research project is to contribute to the academic discussion of the complex relationship that exists between NGOs, MNCs, and governments. These inter-sectoral interactions are very complicated and the variables of interest cannot be captured in a meaningful way by statistical calculations based on proxy indicators. The case study methodology allows enough flexibility in definitions and levels

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[13] Meike Skolnik, "Use Your Profit to Clean Up Your Mess," Shell Accountability Coalition (Feb 2007) http://www.foeeurope.org/publications/2007/SHELL_Use_profits_for%20_damage_report.pdf (accessed Nov 10, 2007).

[14] Media Center Dutch Royal Shell, "The Shell Sustainability Report 2006," Dutch Royal Shell Global Website, http://www.shell.com/home/content/media-en/news_and_library/publications/2007/2007_annual_reports_13032007.html#2 (accessed Oct. 15, 2007)

of analysis that it is possible to tailor-fit variables to each case. In doing so, it is possible to maximize the amount of knowledge each case can provide. These three cases all provide insight into the relationship dynamics between these players and allow us to examine the intervening variables that shape their interactions and subsequent decisions.

Chapter 4
Case Study - Exxon's Intercor and El Cerrejón, Colombia

Holding the border between Central and South America, Colombia is one of Latin America's largest countries and endowed with a vast supply of natural resources. Its tropical climate is tempered by cool Andean peaks that divide the country in half and serve to isolate many of the country's main cities from one another. Colombia gained its independence from Spain in 1810 and formed an independent state after the collapse of the larger Colombia Gran in 1830.[1] Presently, the Colombian government is a democratic system that has struggled for stability and legitimacy in the midst of civil war and rebel insurgence funded by the lucrative drug trade. The fertile soil of the Colombian territory makes it ideal for an agricultural based economy which has translated into Colombia's sizable contribution to the international coffee market and more notoriously, the world's drug market. In addition to these resources, Colombia's land holds valuable coal reserves and in the past thirty years, has become home to the world's largest coal strip mine.[2] This mine, El Cerrejón, is located in the district of La Guajíra, which is a desert-like region in the northeastern corner of Colombia. Bordering Venezuela and the Caribbean Sea, the region has never been well integrated into the Colombian nation as it has been the subject of several border disputes with Venezuela and is infamous for its contraband trade.[3]

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[1] "CIA – The World Factbook – Colombia," Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/co.html (accessed Feb. 1, 2008)

[2] "Victor at Tabaco – 18 June 2002" Mines and Communities http://www.minesandcommunities.org/Action/action23.htm (accessed Jan. 9, 2008).

[3] Harvey F. Kline, *Colombia: Democracy under Assault*. 2nd ed. (Boulder: Westview, 1995) 74.

The La Guajíra region is home to numerous Afro-Colombian communities and Wayuu Indians villages. These people base their lives on small-scale farming, goat herding, and selling their crafts along roads and in surrounding towns.[4] The Wayuu Indian tribe is one of the largest and most complex tribal groups in Colombia; however, its decentralized power structure makes it difficult to deal with external powers.[5] In addition, the Afro-Colombian groups often face challenges to getting recognition as an ethnic group, which provides them with special protections on property rights and land ownership under the 1991 constitution.[6] These two groups make up the majority of those individuals living in the Guajíra region, and because of this fact they experienced the consequences of government and business collusion first-hand. The coal reserves of El Cerrejón were discovered in 1882 but the thought of extracting this coal did not start until exploratory mining began in 1950.[7] The government began seriously considering the exploitation of the coal reserves in the 1970s, but did not actually initiate construction on the site until 1980. The establishment of a partnership between Colombia's national Carbones de Colombia (Carbocol) and the fully owned Exxon subsidiary, International Colombia Resources (Intercor), brought El Cerrejón to life in 1980. Since its birth, El Cerrejón has grown slowly, forcing communities to relocate against their will and

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[4] Walter K. Wilson, "El Cerrejón: Power for the World," *Lamp* 78(1996):11-18, 11.

[5] University of Arkansas, Fayetteville, "Human Cost Of Colombian Coal Revealed," *ScienceDaily*, http://www.sciencedaily.com (accessed Jan. 10, 2008).

[6] Suzanne MacNeil, "Reflections on Mining in Colombia: When Development Creates Deprivation," *Colombia Journal,* 13 Aug. 2007, http://www.colombiajournal.org (accessed Jan. 9, 2008).

[7] "A Country Study: Colombia," Library of Congress, http://lcweb2.loc.gov/frd/cs/cotoc.html (accessed Jan. 30, 2008)

beginning the hardships for the Wayuu and Afro-Colombian communities living in the surrounding area.

Political Conditions: Bring on the Corruption

The twentieth century for Colombia has been characterized by violence and disorder. The later part of the century has been particularly turbulent for Colombia as exemplified by scholar Harvey Kline's discussion of the period of 1974-1994 as the "edge of chaos."[8] During this time, the proliferation of guerrilla and paramilitary groups created situations of near anarchy in many parts of the country. Colombia's already weakened state apparatus has been constantly destabilized by the state's lack of monopoly over the legitimate use of force. According to Marcella and Schultz, in the 1990s, ten people per day died in Colombia due to political related strife, and from 1989-1999, over 35,000 people have fallen victim to political violence. Moreover, 1.3 million individuals have been displaced by the violence within society.[9] The deficiencies of the Colombian government further manifest themselves in the fact that 80% of crimes taking place in the 1980s went unreported, according to government estimates. Moreover, of those reported, only 10% lead to convictions and by 1990, homicide had become the leading cause of death in the country.[10]

In the midst of this turbulence, four major guerrilla groups have formed: the Revolutionary Armed Forced of Colombia (FARC), The National Liberation Army

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[8] Kline, op. cit., 50-51.

[9] Marcella Gabriel and Donald E. Schulz, "War and Peace n Colombia," *The Washington Quarterly* 22, no.2 (1999):213-221.

[10] Kline, op. cit., 64.

(ELN), the People's Liberation Army (EPL) and the April 19th Movement (M-19). These groups all share radical Marxist sentiments and challenge the state's authority and its conservative orientation. These groups challenge the government's control over territory, cause social disorder through attacks on civilians, and engage in attacks on business enterprises within the state. In 1997, FARC and the ELN began an intense bombing campaign, targeting infrastructure such as railroads in attempts to weaken the Colombian economy, because they viewed it as dominated by foreign capitalist interests. The ELN and FARC wanted to see all nature resources nationalized because they consider foreign investment to be acceptable only when it brings technological advancement and is linked to Colombian economic and social priorities, not the goals of a foreign entity or state, and this was not the case with the foreign capital investments of the time.[11] The guerrilla's actions directly impacted the El Cerrejón coal mine as the railway that ran between El Cerrejón and its main port was blasted in 1997, and the damage caused put a temporary stop to the transfer of coal from the mine to the coast for export.[12] Business was forced to accept the guerrillas' actions as the government was unable to suppress or control these groups. The threat posed by the guerrillas was shared between business and government and pushed the two together with their shared desire to see an end to the insurgent groups. This shared enemy encouraged business and government to work together against the civilian insurgents and further insulated the government-corporate relationship from public pressure.

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[11] "Colombia on the Brink," *The Economist* (8 Aug. 1999), http://www.factiva.com (accessed Jan. 9, 2008).

[12] "Colombian Rebels Blast, Derail Coal Train," *Reuters News* (28 Sept. 1997), http://www.factiva.com (accessed Feb. 2, 2008).

The overall inability of the Colombian state apparatus to control the country is further hindered by the illegal drug trade which has detrimental impacts on both Colombia's economic and political development. Colombia is the world's leading producer of the coca, opium poppy, and cannabis. With 144,000 hectares in coca cultivation in 2005, Colombia has climbed to the top of the world's cocaine market and is the main supplier for the United State's market.[13] Economically, the extensive black market for drugs has created many problems including increasing inflation, increasing tax evasion, diverting government funds from more socially productive tasks, forcing Colombia to become a food importing country because of the use of land for narcotic instead of food production, and the perpetuation of corruption in government and corporations.[14] Nearly half a decade of conflict was funded largely by the profits of drug production that also took place in the regions beyond government control. Paramilitaries were established to protect drug-harvesting land and these paramilitaries often came into direct conflict with guerrilla armies that were also looking to control swathes of territory beyond the government's reach. The opposing interests of the drug lords and guerrillas perpetuated violence even in the most remote regions of Colombia and promoted a culture of lawlessness throughout much of the country. Scholar Francísco Sanín describes two different Colombia's; one urban Colombia which is modern, stable and based on laws and social stability and another rural Colombia that is underdeveloped, rentier, agrarian and accustomed to lawlessness. Sanín makes the point that in the past half decade these two different Colombia's have blurred together as the lawlessness of the

[13] "CIA – The World Factbook – Colombia," Central Intelligence Agency.
[14] Kline, op. cit.

rural Colombia has pervaded the urban one, and corruption and illegal behavior has become common in highest echelons of the political arena.[15]

In Sanín's study of the period of 1978-1998, he points out the fact that Colombia has a history of large-scale corruption in politics and that the Colombian government has "generally not exercised monopoly powers, whether over customs, taxes, or the legitimate use of violence."[16] The fundamental weakness of the state has allowed for patterns of illegal behavior to take root, pointing to the drug trade as simply another example of a raw material serving as the basis of corruption much like emeralds in the 1960s or coffee beans had been during the first half of the century. Both of these natural resources created powerful groups that had inordinate amounts of influence over both local and national political power.[17] In the early 1990s, extensive government corruption became blaringly apparent under the Presidential reign of Ernesto Samper Pizano. During his administration (1994-1998) it came out that Pizano's campaign was funded largely by the Cali drug cartel and scandals connecting members of his administration to the drug lord surfaced almost daily.[18]

The Colombian government was in a state of disarray at the conception of the El Cerrjón mine, challenged by guerrillas, bought out by drug lords, and unable to maintain order within its borders. According to surveys done by Transparency International, Colombia's general public realized the pervasiveness of corruption within their society. When polled, 91% of the population believed that corruption impacted their personal and

[15] Francisco Gutiérrez Sanín, "Politicians and Criminals: Two Decades of Turbulence, 1978-1998," *International Journal of Politics, Culture and Society* 14, no.1 (2000):71-87.
[16] Sanín, "Politicians and Criminals: Two Decades of Turbulence, 1978-1998," 71.
[17] Ibid., 72.
[18] Ibid., 77.

family life either somewhat or very much, 75.3% believed corruption impacted the business environment, 89.5% saw an impact on political life and 92.2% felt corruption had even impacted the country's culture and values.[19] This survey was conducted in 2002, and it can only be assumed that these numbers would only have been worse during the 1980s and 1990s. In fact, in 1999, President Andres Pastrana Arango won the election campaigning on a platform promising to fight corruption and clean up politics.[20] Following President Arango, the Colombian government has made a concerted effort to reduce national corruption, making it extremely likely that these numbers from 2002 are very similar to what surveys done ten or twenty years ago would reveal.

The extreme political, economic and social instability within Colombia has created a situation in which the general population is extremely vulnerable because the state apparatus is unable to protect the public from internal threats posed by drug lords or insurgents, and is also unable to offer protection against foreign threats in the form of multinational corporations. With the government unable to control its domestic affairs, the country's population is left largely in a state of anarchy, in which individuals and communities often fall victim to the abuse of those more powerful than them. The La Guajíra region is a perfect example of the rural, underdeveloped part of Colombia where drug production and contraband trade are important parts of the district's economic viability. This area in particular was beyond the government's reach and as a result, its inhabitants suffered human rights abuses at the hands of foreign power, Intercor.

[19] "The Transparency International Global Corruption Barometer 2002," Transparency International, http://www.transparency.org/policy_research/surveys_indices/gcb/2003__1 (accessed Feb 2, 2008).

[20] Kline, op. cit.

Moreover, the collusive relationship between Intercor and the struggling Colombian government put the inhabitants of the regions surrounding El Cerrejón at a total disadvantage because they were entirely overpowered. Without economic resources, political pressure or even means for physical self-defense, these communities were abused and destroyed by Intercor and have to this day been left without compensation or redemption for those human rights violations committed against them.

The Partnership Begins

Up until the 1960s, Colombian policy encouraged direct foreign investment; however the balance of payments crisis in 1965-1966 pushed the government to alter its policies. The government wanted to protect domestic production, increase exports and maintain more control over foreign direct investment and began to restrict foreign investment through the 1970s. In the late 1970s and early 1980s, the Colombian economy faltered as coffee prices collapsed, growth stalled, foreign credit dropped and the overall fiscal situation destabilized. The financial sector fell into a crisis because of the economic problems and the government was once against forced to reevaluate its macroeconomic strategy.[21]

The vast stores of coal under Colombian soil had been discovered nearly a century earlier in 1880, and following exploration of El Cerrejón in 1950 the government toyed with the idea of utilizing this resource to stimulate economic growth and development. Colombia holds 40% of Latin America's coal reserves, and the exploitation

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[21] Adolfo Barajas, Roberto Steiner, and Natalia Salazar, "The Impact of Liberalization and Foreign Investment in Colombia's Financial Sector," *Journal of Development Economics* 63(2000):157-196.

of these reserves was seen as a source of "substantial foreign earnings and an escape from dependence on coffee exports."[22] During the period of 1967-1990, "the economy did not fit neatly into a category of 'capitalist,' 'socialist,' or even 'state capitalist,'" but the state was clear about its desire to maintain control of any major projects it deemed essential to national development.[23] This meant that the Colombian government wanted to keep a large stake in the development of the coal mining operation even though it did not feel as though it had the technology or initial capital necessary to conduct the project on its own. Kline cites a US diplomat as saying "What this country needs are more multinational corporations, not fewer. The Colombians are not capable of doing anything by themselves."[24] This attitude seemed to ring true for Colombian officials as well who opted to engage in a joint venture with a foreign company in the development of El Cerrejón.

In June 1974, Intercor drafted its first contract proposal for the El Cerrejón region and began to petition the Colombian government for a joint venture. Carbocol (Colombian Coal Company) was established in 1976 as a state owned enterprise that was jointly owned by two other government enterprises; the Export Promotion Fund and Colombian Petroleum Enterprise.[25] In 1980, the Colombian government finally accepted Intercor's contract because it offered to pay the government the highest royalties at 15% of production. Under the contract, Intercor makes substantial payments to the Colombian government through income taxes, taxes on remittances of profits to the exterior, and an

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[22] "TRADE Energy key to Colombia's Growth," *The Globe and Mail*, (5 July 1982), http://www.factiva.com (accessed Feb. 2, 2008).
[23] Kline, op. cit., 95.
[24] Ibid., 127.
[25] "A Country Study: Colombia," Library of Congress.

excess profits tax when profits rise above 35% of the accumulated investment. Intercor made statements regarding the government's ability to profit from the agreement, estimating that 83% of the mine's profits go to the Colombian government, and only the remaining 17% make it to Intercor's coffers.[26] The joint venture split ownership of the mining operation 50-50 but gave Intercor control over the mine's daily operations. The initial cost of opening the mine was an extremely high, $3 billion. This cost was supposed to be shared evenly between Intercor and Carbocol and covered the development of the port, construction of a railway between Cerrejón and Portete, the mine itself, and housing for mining employees.[27] In 1980, this was one of the largest joint ventures in Latin American history and together Intercor and Carbocol created the largest strip coal mine on the continent. The mine was 30 miles long and grew from 2 to 5 miles wide, and in 1980 was expected to produce 15 million tons of coal annually starting in 1986.[28] According to Kline, Exxon approximated that Colombia would earn $48.835 billion worst case scenario,(in current dollars, assuming production of the projected 15 million tons a year and low prices for coal) and $100.7 billion in the best case(assuming 25 million metric tons per year and high prices).[29]

However, this contract was not entirely without corporate benefit as the company could be confident that it would enjoy eased regulations and would be able to exploit its

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[26] Kline, Harvey F., "The Coal of 'El Cerrejón': An Historical Analysis of Major Colombian Policy Decisions and MNC Activities," *Inter-American Economic Affairs,* 35 no.3 (1981):69-90, 82.

[27] Sarita Kendall, "Financial Times Survey: Colombia III – Cerrejon – The Rich Promise of North Coast Coal Projects," *Financial Times* (19 Feb. 1982), http://www.factiva.com (accessed Feb. 2, 2008).

[28] Tom Boswell, "Mining Disaster," *E* 7, no.4 (1996):21-24, http://www.galegroup.com (accessed Jan. 9, 2008).

[29] Kline, op. cit., 106.

position as managing partner to inflate its own profits. Intercor was incentivized to "hide profits" and was put into a position where it was extremely easy for the corporation to increase its own profits at the expense of the Colombian government. Intercor controlled the infrastructure and managed the everyday operations at the mine, and as a result could easily overcharge the government for mining, loading and transporting Carbocol's portion of the coal.[30]

In addition to Intercor's capacity to pull profits away from Carbocol, it was also able to dodge environmental and social regulations as the company learned early on that there were no consequences for ignoring these non-financial aspects of the contract. The environmental impact assessment required by contract at the initiation of the mining project was never actually conducted, as Intercor submitted a financial report discussing the economic viability of the mine in place of one analyzing environmental issues associated with mine construction.[31] Moreover, the economically focused report submitted did not mention the indigenous and Afro-Colombian communities in the surrounding areas. In refusing to acknowledge the existence of these groups, Intercor feigned ignorance about the legal rights to which these groups, protected cultural communities, were entitled. Under Colombian law, these groups had the right to collective bargaining for land purchase, and the company was obligated to make provisions for their communal relocation if their land was purchased.[32] This became an issue several years later as Intercor repeatedly committed human rights violations,

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[30] Kline, "The Coal of 'El Cerrejón': An Historical Analysis of Major Colombian Policy Decisions and MNC Activities," 89.
[31] Ibid., 83.
[32] MacNeil, op. cit.

abusing the communities living in the areas surrounding El Cerrejón without any sort of consequence from the Colombian government.

The government was willing to accept the risks associated with Intercor's managing position and also leave the indigenous population unprotected because the extremely high levels of production and expected profits were expected to help the La Guajíra region develop. By moving away from an illegal marijuana based economy to a more industrialized coal producing system, at El Cerrejón were expected to bring less harm than good to the people of La Guajíra. The mine itself created 4,000 jobs directly and approximately 3,000 contractors and these employees were described as "some of the best-paid in Colombia."[33] The new industry in El Cerrejón was supposed to lift the standard of living for the people of La Guajíra, but this was not the case. Despite the presence of development in traditional terms (increased GDP per capita and job creation) the local residents of the areas surrounding El Cerrejón were not the ones to benefit from this development. The majority of Wayuu workers were hired to assist in initial mine construction but were laid off after the mine began operation, as those employees were almost exclusively technicians from the United States.[34] Moreover, the revenue that the mine brought into local government was invested in health and education in the main municipalities of Riohacha and Barrrancas, which are nowhere near the rural areas surrounding the mine and subsequently, provided no benefits for those communities most heavily impacted by the mine's operations.[35]

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[33] Wilson, op. cit., 12.
[34] Boswell, op. cit.
[35] MacNeil, op. cit.

The relationship between Intercor and the Colombian government is a perfect example of the Rentier State scenario. A Rentier State is one that, as a result of its economic dependence on the extraction of a resource, becomes inextricably reliant on a foreign corporation. The Rentier State Thesis, as described by Douglas Yates, explains the Resource Curse phenomenon that has victimized Colombia. The government receives rent from Intercor on a regular basis as the company must pay heavy royalties in addition to high taxes on the coal product. This singular mine contributes very heavily to the Colombian economy and the rent paid on this mine goes directly and exclusively to the government, making this a perfect example of Rentier State.

Because of this unique relationship between Intercor and the Colombian government, Colombia's political development has been hampered and the country's population suffers as a result. Because of the income from the external rent paid by Intercor, the Colombian government loses its sense of dependence on the national population for support and legitimacy. The communities hurt by operations at El Cerrejón have no leverage with which to hold the government accountable to their needs as the government becomes more concerned with sustaining itself through continued rent collection than attending to the needs of its people. The Resource Curse is apparent in this case as it provides vivid examples of how foreign investment from a large multinational corporation can seduce host governments into ignoring the needs of its people in the interest of improving its own economic situation. Armando Perez Araujo, legal representative and advocate for these people writes that,

> Judges, magistrates, journalists, national, departmental, and local government officials, and law enforcement are strongly influenced in their

> decisions and name streets in their [Intercor's] honor. They go as far as to be bearers of the company's threatening messages, counter reports, and host events celebrating their collusion against civil society.[36]

This gives an indication of just how close the relationship between business and government has become, at the expense of the host population. In Colombia in particular, this gap is made worse by the government's historic lack of control over the state manifested by guerrilla insurgence and rampant drug trafficking. As a result of the weak state and its collusion with foreign business, the people living around El Cerrejón suffered human rights abuses and were unable to create any sort of corporate crisis, leaving them to this day at a loss of their way of life, their land, their community, and their dignity.

The Human Cost of El Cerrejón

La Guajíra is characterized by desert-like terrain that is not especially fertile and offers only minimal comforts to those willing to try to make their lives there. In the areas surrounding El Cerrejón specifically, there were communities of Afro-Colombian people as well as indigenous Wayuu Indians living simple lives off the land. The Wayuu people inhabited the town of Tamaquitos, and Afro-Colombian established the towns of Chancheta, Roche, Patilla, and Tabaco.[37] For the most part, these people survived as goat herders and small-scale farmers, engaging in subsistence-based lives focused on community life. The majority of the indigenous population lives in rural communities and

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[36] Remedios Fajardo Gomez and Armanda Pérez Araíjo, "Report on the Systematic Violations of the Human Rights by Exxon," Mines and Communities, http://www.minesandcommunities.org/Company/exxon01.htm (accessed Jan. 9, 2008).

[37] MacNeil, op. cit.

19% of the country's Indians live in La Guajíra. The Wayuu's specifically, make up the second largest native group in Colombia and are one of the most complex and powerful groups among the Indians. However, the decentralized power structure within the Wayuu tribes makes it extremely difficult for these people to combat external pressure, preventing them from using their size and strength to their full capacity.[38]

Both indigenous and Afro-Colombian groups were granted protected status as part of the revised Constitution of 1991. The National Indian Council was founded in 1982 and was determined to get recognition and protection for indigenous groups. The fact that it took so long for the native people to organize and earn recognition highlights a historic bias against these groups in Colombian society. Kline describes the cultural practices of racial hierarchy in Colombia as *Blanqueamiento,* which refers to whiteness being valued over blackness or Indianness. He also notes that there is a "strong correlation between race and social class. Most members of the upper class are white. Many members of the working class are people of color."[39] The cultural bias against these ethnic groups worked greatly to the disadvantage of these people because the government, run mainly by white, upper class individuals, was largely uninterested in protecting these people of color. The National Indian Council asserts that indigenous people make up for 2.3% of the Colombian population, residing predominantly in the rural areas. In contrast the Office of National Procurator reports significantly different numbers, counting Indians as only 1.5% of the population. This is yet another example of the lack of status for the

[38] Kline, op. cit., 14.
[39] Kline, op. cit., 13.

indigenous people in Colombia and the government's efforts to downplay the community's importance.[40]

On several occasions, the government has refused to respond to community needs when the people living around El Cerrejón challenged Intercor's actions. In 1992, the towns of Espinal and Caracolí, home to Wayuu communities, attempted to sue the mine for jeopardizing the peoples' health and safety, and the Ministry of Health for its inaction. Head lawyer Armando Perez Araújo cited environmental and human rights violations committed against the community. From 1984 to 1991 the health of the population suffered significantly, as 20 people died from vomiting, diarrhea, hemorrhages, miscarriages, bronchitis, and birth complications as a result of impermissible levels of coal and sterile particulate matter being released into the environment.[41] When the lawsuit finally made it to trial, it began in the Superior Court of Riohacha, where the action was denied, and then moved to the Supreme Court, where it was again denied. Finally in September 18, 1992, the Constitutional Court issued a ruling in favor of the community, ordering the Ministry of Health and Ministry of Mines and Energy to take all measures necessary to:

> effectively guarantee the protection of the fundamental constitutional right to life and physical safety of the persons and families directly affected by the contamination in the hamlets of Caracolí and Espinal in the county of Barrancas in la Guajira. Said ministries and agencies shall take care to conserve the quality of life and a healthy environment in these hamlets in regards to the environmental contamination produced by the coal mining, taking in to account the UNINHABITABLE conditions and the HIGH

[40] Ibid., 13-4.
[41] Gomez and Araíjo, op. cit.

> RISK TO HUMAN, PLANT AND ANIMAL LIFE noted in Ministry of Health Resolution number 02122 of February 22, 1991.[42]

This ruling, although initially promising, ultimately did not benefit the community and only served to further underscore the collusive relationship between business and government that placed the host population as a distant secondary concern to the importance of business development.

The Ministry of Health, in conjunction with the Office of Indigenous Affairs and Intercor representatives settled on a solution in which the residents of Espinal and Caracolí would be relocated. Intercor provided some land to create a reservation for these people, providing those who complied with relocation with transport to their new homes and meager compensation for the rebuilding of community facilities. The land that these people were given was extremely unproductive and prevented any opportunity for the Wayuu to continue their lives as farmers and goat herders, as the land was impossible to farm. To this day, the Wayuu on this reservation are destitute, living in poverty and have not yet recovered from the lost of their former homes to El Cerrejón.

As the years passed and Intercor continued its unstoppable drive for land and coal, Intercor and the government both became more aggressive in their attacks on the community. In 2000, Carbocol's share in El Cerrejón was purchased by a consortium of Anglo-American, BHP-Billiton, and Glencore.[43] Although no longer directly involved with the mining operation itself, the

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[42] Ibid.

[43] "Mining Technology – Carbocol and Intercor Coal Mine – El Cerrejon Notre – Colombia," Mining-technology.com, http://www.mining-technology.com/projects/cerrejon/ (accessed Jan. 28, 2008).

government still retained extremely close ties with Intercor, its partner for the past two decades. The government used its influence even after cashing out of El Cerrejón to ensure that the project could continue to grow and bring revenue to the government through rent and royalties. The government demonstrated its bias against Afro-Colombian and Wayuu communities by systematically de-recognizing several villages so as to allow Intercor to ignore the 1991 Constitution's provisions for protected groups.[44] An example of this event occurred in the town of Tamaquitos which the Wayuu people inhabited. Tamaquitos, with its close proximity to El Cerrejón, sits on top of coal reserves that Intercor wanted to include in its mine expansion in 2001. The government's Office of Indigenous Affairs made a concerted effort to de-recognize the group and affirm the fact that the people there did not exist as an indigenous community.[45] Macela Bravo, the office's leader, commissioned an anthropological report on the people in an attempt to demonstrate that they were not a community deserving of protected status. The report eventually found the community to be Wayuu and worthy of protection and as a result of this unfavorable finding, Bravo refused to pay for the report, demonstrating an example of blatant collusion between government and business in the battle over land with the community.[46]

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[44] W.T. Whitney Jr., "Colombia: Blood on the Coal," *People's Weekly World Newspaper,* (30 Nov. 2006), http://www.pww.org/article.articleprint/10221/ (accessed Jan. 10, 2008).

[45] Gomez and Araíjo, op. cit.

[46] Armando Pérez Araújo, "Urgent Action on Crisis Involving Exxon in Colombia – 3rd August 2001," Mines and Communities, http://www.minesandcommunities.org/Action/action9.htm (accessed Jan. 9, 2008).

The government again used its powers against its own population in the town of Tabaco, home to an Afro-Colombian community, which was deliberately destroyed in 2001 by Intercor. The ruination of this town provides the most dramatic example of the blatant disregard for community rights and wellbeing by Intercor and the government's participation in these acts of destruction and abuse. Intercor began its attack on Tabaco in the early 1990s, harassing the community, trying to encourage residents to leave. In response, Tabaco residents established a Relocation Committee that would coordinate negotiations for the purchase of the land, emphasizing the importance of adequate compensation and provisions for a new site where they could continually living communally and engage in the same lifestyle as before.[47] It was extremely important to the community that they be able to remain together because if forced to disperse, it was inevitable that most would end up poor and unemployed in neighboring cities. Tabaco endured environmental issues similar to those in Espinal and Caracolí, and as negotiations between Intercor and the Relocation Committee stalled in the late 1990s, the community was plagued by harassment in the form of violent attacks against community activists and reporters.[48]

In August 2001, Intercor finally gave up on negotiations and appealed to the Ministry of Mines and Energy through Carbocol to expropriate "a land plot called Tabaco, fraudulently hiding the fact that the land plot was in fact a village"

[47] Richard Solly, Aviva Chomsky and Roger Moody, "British-Based Mining Companies Displace Communities in Colombia," The Refugee Project, http://www.therefugeeproject.org/mining.htm (accessed Feb. 1, 2008).

[48] Araújo, op. cit.

enabling Intercor to seize homes and destroy communal property with the assistance of Colombian law enforcement. Frjado states that “Tabaco was destroyed under the cloak of judicial orders” even though these orders were clearly unfounded and unjustified.[49] Intercor workers along side Colombian police and military troops forcibly removed residents from the town, injuring those who refused to comply. The totaling of the city continued until January 2002 and the former Tabaco residents were left without homes, without compensation, and without justice.

Conclusion: No Crisis, No Consequences

Intercor was bought out by the Anglo-American, BHP-Billiton, Glencore consortium in 2002, shortly after its attack on Tabaco. Most critics see this as deliberate timing on Intercor’s part because in committing this human rights violation before selling its interest, the new owners of El Cerrejón can deny responsibility for the town’s destruction. Even though the Supreme Court of Colombia ruled that the village must be reconstructed in 2002, the legal battle continues as both Intercor and the current owners refuse to claim responsibility for the task.[50] This lawsuit did not create a crisis for either Exxon or any of the three current owners for several reasons. First of all, the ruling is from a Colombian court which falls victim to the same problems of enforcement as all

[49] Solly, Chomsky, and Moody, op. cit.
[50] “Victor at Tabaco – 18 June 2002” Mines and Communities http://www.minesandcommunities.org/Action/action23.htm (accessed Jan. 9, 2008)

other Colombian laws. The weak state is unable to enforce the Court's ruling and therefore there is no pressing need for any of the companies to assume responsibility as there will be no real consequences for them if they do not.

Also, because the trial took place in Colombia, the people of Tabaco never received any international attention and were unable to enlist the support of global NGOs that could get their story heard. In order for groups like the indigenous and Afro-Colombian communities to have any leverage over large multinationals like Exxon that have already effectively co-opted their governments, these communities need the help of large transnational networks. NGOs can advocate for these groups internationally, providing the time, money and resources necessary to conduct a media campaign that catches the attention of the company's consumers.[51] Without the support of consumers and presenting an actual threat to corporate profits, these victimized communities are just too small and without any means of influencing the company.

The communities of Tabaco, Tamaquitos, Espinal and Carcolí were left at the mercy of Intercor as their own government placed their interests as secondary to those of the foreign company. Their lack of resources prevented these communities from creating any sort of crisis for Exxon, and as a result, the corporation did not change any of its practices in the slightest. Intercor, after selling its interest, was disbanded. Exxon continued its operations similar to El Cerrejón in the same manner it had before and felt no inclination to change policy

[51] Margaret Keck and Kathryn Sikkink, *Activists Beyond Borders* (Ithaca, NY: Cornell University Press, 1998).

or practices.[52] Without an incentive or pressing need, organizations do not change, and as a result, poor practices remain the standard and victimized communities like these ones are left uncompensated and without justice, left to piece back together their shattered lives. This case of the devastating impact of the El Cerrejón mining operation on surrounding communities highlights the dangerous consequences of a collusive relationship between government and foreign business. The host population is left vulnerable and unable to defend itself against these overwhelming external forces, and without international assistance of its own in the form of NGOs, the Colombian citizens are left to live in the wake of the destruction caused by large-scale mining operations.

[52] Peter L. Brill and Richard Worth, *The Four Levers of Corporate Change* (Boston: American Management Association, 1997).

Chapter 5
Case Study - BHP and the Ok Tedi Mine in Papua New Guinea

Situated among the tropical island chains of the South Pacific, New Guinea is a beautiful and exotic land with picturesque mountains covered by dense rainforest and dotted with mysterious clouds of fog and mist. Nearly 85% of the population relies on agriculture to support its subsistence lifestyle as many inhabitants of PNG are indigenous peoples that maintain traditional ways of life that are intimately connected to the land they walk on.[1] Hidden beneath the soil are an abundance of natural resources including gold, silver, copper, and oil, and as a result, this island has become a hotspot for extractive industries. In the past, reserves of natural resources have been left untapped as the dense jungles and rugged topography have greatly hindered the development of infrastructure and subsequent access to the remote regions where resources are. The western side of the island, Papua New Guinea (PNG), was held under the control of colonial powers such as Germany, the United Kingdom, and Australia until September 16, 1975 when it finally declared independence. The newly formed state established a constitutional parliamentary democracy that has been in place ever since, working to develop the country's economy through the exploitation of natural resources.

Since in the 1980s, the PNG government has become largely dependent on the export of natural resources for its financial stability, as 70% of the country's exports have come from mining and oil operations.[2] Profits from the extractive operations account for

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[1] "CIA – The World Factbook – Papua New Guinea," Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/pp.html (accessed Jan. 5, 2008).

[2] Glenn Banks, "Mining and the Environment in Melanesia: Contemporary Debates Reviewed," *The Contemporary Pacific* 14, no 1(2002):39-67.

66% of the Gross Domestic Product, making this economic sector extremely important to maintaining the state apparatus.[3] In the early 1980s, the Ok Tedi ore body which lies within Mt. Fubilan was discovered to hold a rich supply of copper and gold, and the land was leased out for exploration and mining starting in 1981. In 1984, Ok Tedi Mining Limited (OTML) was formed, and mining operation began extracting gold, followed shortly thereafter by copper concentrate production in 1987. OTML was a joint venture between Broken Hill Proprietary (BHP) (60%), the state of PNG (20%), and Inmet Mining Corporation from Canada (20%). BHP, an Australian global resources company, held a majority of the operation's interest, and subsequently, acted as the project manager from the mine's opening in 1987 until 2000.[4]

Government and Business: Their Special Relationship

In this case, the interests shared by the government and the corporations are extremely clear as the independent government of PNG is a direct investor in the OTML operation. Papua New Guinea is classified as a least developed country with very little industry and only glimpses of a modern economic system in areas directly surrounding large, imported mining operations. The government of PNG, shortly after receiving independence, was eager to find investment opportunities that would attract multinational corporations and would pump foreign money into the Papuan economy. Extractive operations, although very profitable in the long-term, require huge start up costs and

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[3] "Papua New Guinea (10/07)," US Department of State, http://www.state.gov/r/pa/ei/bgn/2797.htm (accessed Jan. 5, 2008).

[4] "Report to Shareholders 1998," BHP Annual Report.

cannot begin without heavy initial investment that the government alone just could not provide. By enlisting the financial support of a multinational that had the discretionary funds to carry the mine's start up costs, the PNG government exemplified why foreign direct investment is so appealing for developing economies. In fact, since its opening in 1984, Ok Tedi has been "the single largest business contributor to the economy of both the Western Province and PNG," highlighting the lucrative returns this type of foreign investment can bring host governments.[5]

Developing governments want to encourage foreign companies to invest in their country so as to pump money into the host state's economy. To present a business-friendly facade, most developing states choose to keep regulations and taxes to minimal levels, or in the case that they keep regulations on the books they oftentimes ignore violations of these laws. Given the current structures of globalizing capitalism, a collusive and commonly corrupt relationship is the most beneficial situation for both MNC and host government in the short-term.[6] Considering the overall political, social and economic instability in developing states, government officials consider it in their best interest to maximize the wealth that they can acquire during their time in office which could potentially be cut short at any moment.[7] As a result, governing elites yield to the whims of business, ignoring regulations, taking bribes, and hording cut of corporate profits while in the position to do so because the underlying uncertainty of the permanence of their position of influence compels them to.

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[5] "OTML at a Glace," OTML Website, http://www.oktedi.com/aboutus/ (accessed Dec. 9, 2008).

[6] Eleanor O'Higgins, "Corruption, Underdevelopment, and Extractive Resource Industries: Addressing the Vicious Cycle," *Business Ethics Quarterly,* 16 (2006).

[7] Meghan Shaughnessy, "The UNGC and the Continuing Debate About the Effectiveness of Corporate Voluntary Codes of Conduct," *Journal of International Environmental Law and Policy* (2001).

Personal motives and the practical necessity of the large initial investment required to begin extractive operations push host governments to favor corporations that are more than willing to maximize the advantageous circumstances. BHP, in this case, saw Ok Tedi mine as an extremely promising investment opportunity that was expected to bring large returns to the company. Because of this promising assessment and the expected low operating costs that come with operating in developing states, BHP agreed to supply the necessary funds to open and operate the Ok Tedi mine. With virtually non-existent regulations and legal constrictions from the governments in conjunction with operating costs that are far lower than in domestic operations, corporations are easily convinced to invest their dollars in developing states. Multinational corporations value the host government's intensely pro-business attitude because it makes the investment in a potentially unstable environment worthwhile. Like governing elites, corporations cannot be sure how long their investment will be protected, as a regime change could result in heavy taxation, losses associated with suspension of operations, or all-out nationalization. Corporations, driven by their desire for stability, collude with governing officials who offer MNCs the unregulated freedom to maximize profits in return for investment.[8] Both governments and corporations place an extremely high premium on short-term stability, compelling both parties to engage in the collusive relationship that places corporate interests above the right and desires of the host population that the government, in theory, is representing.

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[8] Jedrzej George Frynas, "Political Instability and Business: Focus on Shell in Nigeria," *Third World Quarterly* 19, no 3 (1998):457-478.

It is not out of a lack of moral fiber or heartless disinterest in the wellbeing of others that corporations and governments in this situation opt to ignore the interests of the host population for often corrupt relationships with corporations. Rather, it is because both sides are incentivized by their circumstances to engage in this short-term and narrowly-focused manner.[9] In this case specifically, the PNG governing elites and BHP were conforming to these cost-benefit calculations and developed a mutually beneficial relationship at the expense of the environment and much of the Papuan population. PNG elites perceived it to be more beneficial to engage with BHP, offering BHP virtual freedom in the running of the Ok Tedi mining operation, than to cultivate meaningful relationships with their constituents within the host population.

The PNG did not have the resources, financial or personnel, to actually enforce any regulations they may decided to enact, and therefore did not try to draft regulations on their own. In fact, the Papua New Guinea National Statistical Office records the PNG government as spending absolutely no money on environmental protection during the period of 1996-2002. This is particularly interesting considering that the government did make investments in social issues, appropriating funds to social protection, housing and community amenities and healthcare infrastructure at levels that peaked in 1999 and 2000.[10] Environmental protection clearly was not a priority for the government, and its decision to channel government funds to other issues reinforces the fact that the PNG government was satisfied to leave environmental protection up to OTML, allowing it to

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[9] Aynsley Kellow, "Comparing Business and Public Interest Associability at the International Level," *International Political Science Review* 23, no.2(2002):175-186.

[10] Papua New Guinea National Statistical Office," National Statistical Office of PNG, http://www.nso.gov.pg/index.htm (accessed Feb. 3, 2008).

set its own monitoring and environmental guidelines.[11] Because of financial constraints on government and the prospect of large profits despite environmental damage, the needs of the affected host population were largely ignored, keeping the business arrangement with government focused on the bottom line return more than on potential negative externalities.

A Hostile Relationship: Challenges to Indigenous Protests

Contrary to BHP's initial cost-benefit analysis, the Ok Tedi mining operation has proven to be extremely complicated and rather unprofitable as the indigenous people who have been adversely impacted by the mining operation have refused silently to tolerate the degradation of their environment and ways of life. Indigenous groups have refused to be excluded from business consideration and ignored by their government, using international non-governmental organizations and advocacy networks to get their voices heard. Papua New Guinea is home to an extremely diverse population and its indigenous population is "one of the most heterogeneous in the world."[12] Over 600 different tribes of several hundred peoples live in relative isolation among the country's dramatic peaks and dense rainforests and their geographically induced separation resulted in the development of numerous indigenous cultures, and over 800 languages.[13] Nonetheless, many of these tribes do hold some traditional social norms in common, including an intimate connection between humans and the environment, a communal understanding of land ownership, and

[11] Robert Schifferle and Swan Hill, "Risks At ok Tedi," *The Age* (9 Oct. 1995) http://www.factiva.com (accessed Jan. 5, 2008).

[12] US Department of State, op. cit.

[13] "Papua New Guinea - Review 1997," *Asia and Pacific Review World of Information* (1 May 2000) http://www.factiva.com (accessed Dec. 14, 2007).

a general lack of acceptance of permanent transfer of land through sale.[14] Banks notes that "for these communities the environment is economic and it is also social and political life and cultural sustenance."[15] The traditional ideas of the majority of PNG's indigenous populations are largely incompatible with the Western, capitalist-based mentality that drove the opening of Ok Tedi mine and fuels the continuing exploitation of natural resources through extraction.

Starting as early as the mid 1980s, the Wopkaimin peoples who lived in the area directly surrounding the mine resisted the extractive operation. The OTML promptly paid off the Wopkaimin peoples for their land and have continued to compensate that indigenous group through different programs such as government sponsored housing and monetary payments for use of the land. This was a relatively easy situation for BHP and the PNG government to deal with because the issue was based on a straightforward question of land ownership. BHP has encountered this issue many times before and with the profit driven, business mentality could make financial calculations that would pay the problems to go away. For BHP, this was simply considered part of the start-up costs of opening the mine and did not in any way challenge the corporate mentality, as the Wopkaimin people stopped contesting the mine's opening after their financial deal with BHP. To date, the Wopkaimin peoples are the most heavily compensated of the indigenous groups impacted by the Ok Tedi mining operation and have remained out of the legal battles of the past decade.[16] With these protests suppressed, the mining

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[14] US Department of State, op. cit.
[15] Banks, op. cit., 42.
[16] Ibid., 43.

operation kicked into action and the environmental problems that would eventually push BHP out of Ok Tedi altogether began.

In 1984 the environmental woes began with a landslide destroyed the site originally designated for a tailings dam that would stop the waste produced by the operation from draining directly into the Ok Tedi River and disrupting the ecosystem there. After the landslide, there was no effort to find another site for a tailings dam or determine another method of tailings disposal, and OMTL began disposing of the waste directly into the river system. In addition to this issue, there was a large cyanide spill at the mouth of the Fly River (which the Ok Tedi flows into) when an OTM-BHP barge capsized.[17] This spill became an immediate priority and the company focused its efforts on dealing with that problem as quickly as possible and eventually lost interest in the long term problems associated with river tailings disposal. Nonetheless, the lack of appropriate tailings disposal has created the most dramatic environmental problems for the Ok Tedi mining operation.

According to the BHP Environmental Report released in 1997, the Ok Tedi mining operation annually discharges around 70 million tones of tailing and sediment into the Ok Tedi River, which flows into the Fly River, impacting that ecosystem as well. The report also cites the consequences of this discharge as "a gradual build-up of sediments in the river bed… [causing] a gradual build up of sediment on the floodplain, water-logging of adjacent forests and forest dieback."[18] Reports from other sources such

[17] David Hyndman, "Academic Responsibilities and Representation of the Ok Tedi Crisis in Postcolonial Papua New Guinea," *The Contemporary Pacific* 13, no. 1 (2001): 33-54.
[18] "BHP Environment Report 1998." BHPBilliton official website, http://envcommreport.bhp.com. (accessed Jan. 15, 2008) 78.

as the Multinational Monitor cite the annual discharge to reach upwards of 80 million tailings, suggesting the possibility of BHP downplaying the reality, but in either case, the levels of tailings being pushed into the Ok Tedi River and subsequently flowing into the Fly River has had dire consequences for many of the indigenous peoples living downstream of the mining operation.[19] Tailings are the sand-like waste that is a byproduct of the extraction process and builds up like sediment in rivers causing an increasing occurrence of flooding, damaging the surrounding vegetation. Moreover, the tailings are laced with generally toxic chemicals which rush down the river with them, contaminating the wildlife, fish in particular, in the affected ecosystem and killing the vegetation along the river's banks.

The Yonggom indigenous people lived downstream from the Ok Tedi mining operation, and these peoples were devastated by the damage done to the river system by the tailings. The traditional life of the Yonggom people is based on subsistence and embellished with cultural myths and beliefs directly attached to their immediate environment, making the gradual destruction of their river and the lands around it an incredible loss on several different levels. Over 30,000 indigenous people downstream from the mine were adversely impacted and their environmental safety endangered as a result of the river's contamination. The Yonggom people, living on the western side of the river, were by far the most directly impacted group, as their territory was extremely isolated, and the destruction of their subsistence lifestyle was life threatening as they had no other means by which to sustain themselves. The Awin people who inhabited the land

[19] Russell Mokhiber and Andrew Wheat, "Shameless: 1995's 10 worst corporations," *Multinational Monitor* 16 no.12 (1995).

to the east of the river, although still impacted by the environmental degradation of the river, were spared many of the hardships related to survival that the Yonggom people faced. On the east side of the river, there was the Kiunga-Tabinbil road that gave the Awin people access to more urban areas as well as different opportunities to create income and provide food for their families.[20] Because the issue of survival for the Awin tribes was not urgent as it was for the Yonggoms, they largely opted not to participate in protests against the mining operation.

As conditions of the river and surrounding areas rapidly deteriorated, the local Yonggom tribe leaders began to organize the clans to take action against what the mine was doing to their local environment. Stuart Kirsch, an anthropologist studying the indigenous cultures in the area at the time noted that these initial protests against the mine were unsuccessful because so long as the protests remain local,

> they failed to achieve their objective: the petitions disappeared into government file cabinets, the mine offered water tanks and small-scale development projects in lieu of tailings containment, and although university students protested against government policies, they were unable to alter the status quo.[21]

The government and the corporation were able largely to ignore the demands of the Yonggom people because the tribes alone were unable to exert enough pressure on either party to compel change. The Yonggom protests did not create a crisis for the government which, in its early years of democracy, remained insulated and unresponsive to demands from this minority group on the isolate western bank of the Ok Tedi River. Moreover, the

[20] Banks, op. cit.

[21] Stuart Kirsch, "Indigenous Movements and the Risks of Counterglobalization," *American Ethnologist* 34, no.2 (2007):303-321, 305.

PNG government took a stand against challenges to the mining operation, highlighting the fact that government privileged its relationship with BHP over the support and approval of the Yonggom tribes.

An environmental assessment conducted by Australia Conservation Foundation stated that the waste from the Ok Tedi mining operation had "strangled" the Ok Tedi River and "had a significant ecological impact" on the Fly River system as well.[22] BHP officials, and more importantly, Robin Moaina, the head of PNG's Department of Mining and Petroleum, attacked the report and challenged its legitimacy and even its basic findings. Moaina stated that "The report you [the Australian Conservation Foundation] have produced is not fair, scientific or balanced."[23] The actions of Mr. Moaina, a top official in the PNG governing body, characterize the sentiments of the government as a whole in this situation, as it chooses to engage in suspended belief, refusing to even acknowledge the damage being done to the country and its people by the mining operation. Moreover, Mr. Moaina goes on to characterize attacks on the mining operation as "insulting to the people of PNG" and asserted the foundation was pursuing a "political agenda" that attempted to hurt the PNG government and the nation's development.[24] By putting this patriotic spin on the mine's defense, Moaina gives an example of how natural resources can be a benefit for the population as profit for a few and the creation of wealth can become the definitive measures for a government policy's success. The wellbeing of the host population, in this case, becomes a secondary priority for the government

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[22] Mary-Louis O'Callaghan, "Mine Waste Allegations an Insult, Says PNG," *The Age* (9 Oct. 1993), http://www.factiva.com (accessed Nov. 5, 2007).

[23] Ibid.

[24] Ibid.

officials who want development above all else, even if it means long term environmental, social, and cultural destruction.

The Yonggom protests also fell short of having an impact on BHP because the petitions and small scale demonstrations were simply not enough to warrant the company's attention. There is not even any evidence that word of the Yonggom's peoples' woes made it past the coastline of Papua New Guinea back to BHP headquarters, with the exception of several small protests on university campuses in Australia, BHP's country of origin.[25] So long as theses protests did not capture media attention or public interest, BHP did not feel compelled to bother addressing them in any notable way because there was no incentive to do so. Without presenting a potential threat to the corporation itself, the plight of the Yonggom people was not enough to push BHP to alter operating procedure at Ok Tedi. Organizational change does not happen spontaneously, especially in large scale corporations like BHP because standard operating procedure is inherently hostile to change as it allows for efficiency but at the cost of innovation or adaptability.[26] Crises, or immediate and unavoidable challenges to the company's success, are necessary to overcome the rhythm of procedure, challenge the status quo, and begin the process of organizational learning.

On their own, local Yonggom protests did not generate a crisis for BHP as it did not hurt BHP profits, threaten the security of the investment, or some other similar catastrophe. As a result, BHP responded in the same way it did to the Wopkaimin

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[25] Kirsch, op. cit., *305.*

[26] Peter L. Brill and Richard Worth, *The Four Levers of Corporate Change* (Boston: American Management Association, 1997).

protests, using bribes to placate the indigenous tribes. BHP offered assistance to the protesting groups, throwing money at the problem with small community development schemes such as a malaria eradication program that included the construction of several hospitals and schools in attempts to rationalize the destruction of the environment and Yonggom way of life.[27] By offering development initiatives BHP could insist that its contribution to Papua New Guinea was entirely for the purpose of development, and their efforts to assist the Yonggom people modernize compensated for any long-term destruction of land or culture. However, BHP was unable to simply pay and use public relations tactics to talk these issues away. The Yonggom's protests caught the attention of several international NGOs that brought their struggle into the global arena and enabled the Yonggom people to create that much needed crisis for BHP and force the PNG government and its corporate colluders to take notice.

Creating a Crisis: Indigenous and Transnational Collaboration

There is a mutually reinforcing relationship that exists between local advocacy groups and larger transnational advocacy networks because both parties are dependent on one another for effectiveness. Kirsch asserts that "indigenous movements bridge the gap between local and global as international campaigns piggyback on specific struggles and local protests hitchhike on global initiatives."[28] This statement illustrates how transnational advocacy networks form and provides insight into how and why the Yonggom people, a modest 30,000 indigenous Papuans, were able to create a crisis for

[27] "Report to Shareholders 1996," BHP Annual Report, 10.
[28] Kirsch, op. cit., 303.

international corporate giant BHP. On their own, the Yonggom natives were unable to get BHP attention, but by becoming an example of corporate irresponsibility and becoming an example for a larger international campaign, BHP was forced to take notice of their plight. Several international NGOs took interest in the story of the Ok Tedi mine and used the specific example of the Yonggom people to illustrate the problems with mining operations, irresponsible multinational corporations, relaxed government regulation, or even globalization as a whole. NGOs look for cases like this so as to make their campaigns more poignant and attention-grabbing by associating a concrete event and real damages to a human face.

International NGOs that took interest in the plight of the Yonggom people included Mine Watch in London and the internationally funded Wau Ecology Institute, which both took indigenous advocates to testify against BHP at the International Water Tribunal in Amsterdam in 1992. Greenpeace also took note of the events at Ok Tedi and helped orchestrate a press conference at the 1992 Earth Summit in Rio de Janerio, Brazil for the Yonggom advocates. Advocates also traveled to the United States and even spoke with members of the Budestag in Germany, making headlines and international allies along the way.[29]

BHP does not keep a publicly accessible archive of press releases prior to 1996, and there is very little information regarding the BHP public reaction to the internationalized protests. This lack of information leads one to believe that there was little public reaction other than tacit denials that were less than newsworthy. The lack of

[29] Ibid.

effort put forth by BHP to actually deal with the environmental issues at hand highlights a large problem with the corporate mentality. A traditional business education focuses on structuring corporate organizations and strategies so as to maximize profits and generate wealth, and this education does not discuss how to deal with costs that do not appear on a balance sheet, so-called "externalities."[30] The costs to the environment, to long-established social structures, to cultural maturation, and to political evolution are all considerations with which BHP was unfamiliar and largely unconcerned. Avoidance in public and the implementation of the superficial development programs Kirsch mentioned seemed to be the initial BHP reaction because there was no clear capitalist solution. BHP hoped that these minimalist efforts would distract the critics and reaffirm the primacy of wealth creation so that operations could carry on as usual, but this was not the case.

All this publicity and advocacy culminated in the form of a lawsuit against OTML launched in 1994 by Australia's Slater and Gordon law firm on behalf of the Yonggom peoples. As the managing and majority shareholder in the OTML operation, this lawsuit was a direct shot at BHP and created a crisis situation that BHP could not ignore. The lawsuit was a crisis for BHP because it made the environmental problems and social unrest around the Ok Tedi River not only a public relations nightmare but also posed a more immediate threat to BHP's finances. Corporations are most vulnerable at the bottom line because if there is a risk to profit, that could mean the end of the corporation's

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[30] Garrett Hardin, "The Tragedy of the Commons," in *Environmental Management: Readings and Cases,* ed. Michael V. Russo (Boston:Houghton Mifflin Co., 1999), 71-81.

viability and its very existence.[31] The profit is the corporate means of survival and subsequently its primary concern, forcing business to take any attacks on profits as major crises. The Yonggom people's collaboration with NGOs and the lawsuit was a direct assault on BHP's profitability on two levels. The lawsuit itself demanded reparations of over $1 billion, which was a larger cost than BHP was willing or able to endure in the name of continuing the Ok Tedi operation. Also, the suit captured media attention and public scorn which threatened to reduce BHP's consumer pool.

This crisis, although not a single environmental disaster, was a critical moment that made it clear to BHP that the situation in Papua New Guinea has reached a breaking point, now requiring immediate attention and a reevaluation of its standard operating procedures. However, the company did not move directly toward learning, as its first reaction was to retreat back into its collusive relationship with the government, exploiting its privileged position with elites to avoid dealing with the magnitude of the problems facing it. After receiving word of the lawsuit, BHP lawyers colluded with the PNG government to draft legislation that criminalized participating in the lawsuit. The law threatened heavy fines for any persons self-identifying as plaintiffs or even taking action later on and challenging the constitutionality of that legislation.[32] The Victoria State Supreme Court found BHP in contempt of court for its part in drafting the legislation[33] and BHP's decision to use such tactics caused it to lose "the media battle in Australia and

[31] Donald H. Schepers, "The Impact of NGO Network Conflict on the Corporate Social Responsibility Strategies of Multinational Corporations," *Business Society* 45 (2006):282-299.
[32] Kirsch, op. cit.
[33] Mokhiber and Wheat, op. cit.

increasingly appeared as uncaring environmental vandals."[34] The public reacted very strongly against BHP, especially in its homeland Australia because the mining industry is strongly associated with the Australian national identity, and to do so poorly for the industry's reputation, the Aussies took personal offense. The public largely sympathized with the Yonggom people's cause, and this consumer backlash that public relations work alone could not solve further pushed BHP to the point of crisis, forcing the corporation to reconsider the paradigms on which is business had been operating.

The Learning Begins

The Australian courts were never given the opportunity to make an official ruling in the lawsuit, as in 1996 a settlement was reached between the two parties. The settlement was focused mainly on reparation payments to landowners in which BHP agreed to dole out compensation to those Yonggom peoples whose land had been adversely impacted by the Ok Tedi River's pollution. The settlement also required BHP to conduct an environmental assessment as well as derive and implement a plan of action for dealing with the tailings problem that was ruining the Ok Tedi and Fly River systems. The settlement also contained the caveat that the money in the trust was a fixed amount, limiting the value of reparation payments if the government required the company to do any further cleaning following the settlement.[35] This leads one to seriously question the level of compensation that BHP's settlement offered the Yonggom peoples as they lost

[34] Hyndman, op. cit., 34.
[35] Kirsch, op. cit.

not only their land, but a main component of their culture and the basis of their subsistence-based lives.

In total, approximately USD$110,000 million was paid out in compensation and clean up, which was doled out to the 43,000 people who were eligible for compensation.[36] In addition to reparation payments, BHP commissioned an environmental evaluation of the Ok Tedi operation in 1996 in according to the terms of settlement. They stated in their 1996 Annual Report that "detailed engineering evaluation of four options for tailings and overburden disposal at Ok Tedi, PNG, is under way. Our aim is to develop a feasible and economic solution that will reduce the impact on the Fly River catchment and ecosystem."[37] By the end of 1996, there was still no change in mining operations and tailings continued to be dumped directly into the Ok Tedi causing environmental problems only to get worse as BHP puts off taking action.

The period of 1994-1996 illustrates how BHP examined its operations and corrected errors in some practices and patterns of behavior so as to deal directly with the crisis. The goal during this period was to solve the error of the moment, not to reevaluate those ideas and assumptions underlying current procedures.[38] The crisis created by the lawsuit in 1994 pushed BHP to engage in a single-loop learning process in which the corporation examined the cause of the problems and made minor adjustments in operations to fix the problem at hand, but did not take the opportunity to adjust organizational structures to prevent future incidents. By meeting with the Yonggom

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[36] BHP Annual Report, op. cit., 9-10.
[37] Ibid., 19.
[38] Chris Argyris and Donald Schon, *Organizational Learning: A Theory of Action Perspective* (Mass: Addison-Wesley Publishing Co., 1978).

people and their legal representative in settlement negotiations, BHP brought these external stakeholders into corporate consideration. These negotiations established limited avenues for communication between the corporation, the impacted community, and NGO representatives advocating on their behalf. This forced interaction is a necessary part of the learning process as the external stakeholders (the Yonggom people and their allied advocates) gain access to corporate representatives and are able to contribute a new perspective and knowledge to BHP's organizational mindset.

The dialogues between these parties help the corporation determine how to best fix the problem at hand, but the relationship between parties remains largely hostile. In this case, the corporation engages the stakeholders only because it has no other options and must negotiate directly with the stakeholders in order to end the current crisis. The temporary nature of the relationship does not facilitate learning beyond the first loop as the corporation expects the stakeholders to end their complaints after minor adjustments are made and compensation packages paid. Moreover, another important stakeholder group, the government, is excluded from dialogues, further reducing the potential for all parties to learn from interactions. Because a constructive relationship does not form under the circumstances of settlement negotiations, and there were no changes in the government's relationship with its citizens or corporate allies, BHP did not see any incentive to continuing conversations with this group, this crisis failed in pushing BHP to alter the fundamental assumptions that govern its business practices.

Hyndman points out that foreign tort claims hold MNCs responsible for actions abroad but "do not challenge the underlying economic system in which corporations lack financial incentives to limit their environmental impact…[and] legal processes and precedents may have little to do with community standards of right and wrong."[39] The crisis created by the lawsuit initiated a minimal level of change within the organization, but as Hyndman notes, there is no change in the fundamental assumptions such as the primacy of the profit motive, development, and wealth generation. As a result, this first level of learning provides some benefits for the affected Yonggom people but does not bring about enough change within the corporation to guarantee the corporation will be more responsible in the future. The company's main goals push it toward acting irresponsibly; colluding with governing elites, avoiding serious environmental regulations and using remaining detached for the local host populations that endure the consequences of their actions.

After reaching terms of settlement in 1996, BHP was under the close scrutiny of the public as it made efforts at fulfilling their legal obligations to the Yonggom people. The company commissioned an environmental analysis which took over three years to complete, and all the while continued to dump tailings directly into the Ok Tedi River, clearly not living up to its negotiated responsibility to rectify the environmental deficiencies of the method of tailings disposal. According to BHP's Environmental Report in 1997, BHP began to plan the clean up process, proposing a US$60 million two year trial period of dredging in which the benefits of this process would be monitored. However, it is likely this plan did not actually go into effect until at least 1998 as it was

[39] Hyndman, op. cit., 43-44.

not until 1998 that the BHP consulted with the indigenous people likely to be inconvenienced by the noisy and unnatural process of drudging.[40]

In 1999, three years after the settlement, BHP finally announced its plans, or lack there of, for dealing with the tailings problem for the rest of the mine's expected life. BHP stated that after reviewing the environmental assessments, there were no feasible options for improving tailings disposal as it was not an economically viable solution to build a dam or in some other way keep the tailings out of the river.[41] Along with this statement, BHP states that it "expects that regardless of what happens in terms of the mining operation over the next 10 years (the anticipated life of the mine) the extent of the damage will increase dramatically."[42] At this point, BHP admits that there is little that they can do for the people downstream and the company and throughout the late 1990s, BHP's actions reflect minimal first order learning as a result of the crisis situation of 1994.

Discouraging announcements like this gave fuel to threats of new lawsuits and perpetuated the NGO campaign against BHP, keeping pressure on the company to address the consequences of its environmentally harmful practices. This unrelenting public pressure built on top of the high price BHP was already paying out with the legal settlement threatened to become another crisis for BHP at the end of the 1990s. BHP reported "Australia's worst ever corporate loss of $1.14bn in 1998-9,"[43] and could not

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[40] "BHP Environment Report 1998." BHPBilliton official website, http://envcommreport.bhp.com. (accessed Dec. 15, 2007), 77.

[41] Kirsch, op. cit.

[42] Banks, "Mining and the Environment in Melanesia: Contemporary Debates Reviewed," 52.

[43] Stephen Williams, "BHP, Billiton merge into new Gaint," *African Business* (May 2001) http://findarticles.com/p/articles/mi_qa5327/is_200105/ai_n21471787 (accessed Mar. 10, 2008).

afford to lose more in legal battles, driving the company to restart the organizational learning process. Moreover, the merger with Billiton and change in leadership provided an opportunity for BHP to reevaluate organizational structures, making it easier to respond to external pressure and begin double-loop learning. In this second phase of organizational learning an organization goes beyond public relations work and immediate damage control, working to restructure basic strategies, assumptions, and corporate structures that cause these problems to occur in the first place. In this process, the corporation questions the importance of maximizing profit relative to sustainability in addition to social and environmental responsibility.[44] Moreover, double-loop learning also includes organizational restructuring, as corporations alter internal structures and hierarchies to reflect the new focus on non-financial issues.

It is still to be seen if BHP-Billiton has completed the second loop of organizational learning, but as of 2001, the corporation had made progress toward that goal. In 1998, there was a change in leadership within BHP as Paul Anderson took over as CEO until 2001. Pulled into the position because of his past successful turnaround of Duke Energy and its merger PanEnergy in June 1997, Anderson was given the role of lead architect in BHP's merger with Billiton.[45] Anderson was the first CEO selected from outside of BHP's own management, and this dramatic departure from corporate tradition afforded him even more freedom to make whatever changes he felt necessary to deal with the current crisis and turn BHP around. There was a three-step strategy that Anderson

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[44] Argyris and Schon, Op. cit.

[45] Peter Mac, "BHP-Billiton merger wobbles as opposition mounts," *The Guardian* (16 May 2001) http://www.cpa.org.au/garchve4/1045bhp.html (accessed Jan. 10, 2008).

employed to get BHP back to its prior strong and stable status and the first priority was "to right the ship." This meant that the company had to reevaluate its values and do away with all unprofitable and troublesome assets that were a drain on the company and not in line with its values. Selling its share in Ok Tedi reflected this desire to distance the company from such a disaster of an investment and protect the company from further loses. Although strongly compelled by profits to do this, the decision came alongside a public reassessment of corporate values and a major restructuring of management, both of which reflected an increased emphasis within the company on sustainability issues.[46]

Anderson's new focus on sustainability and corporate responsibility issues were evidenced by his strong stance on the Ok Tedi issue and his continued presence on the BHP Board of Directors' Sustainability Committee.[47] Anderson named Ok Tedi a top priority for the company and recognizing the gravity of the mine's problems, stating that the Ok Tedi project is not in line with the company's environmental charter and regrets BHP's involvement.[48] The fact that the company had established an environmental charter and considered non-financial issues when evaluating the worth of the Ok Tedi mine demonstrates subtle changes in corporate mentality. In 1999, BHP released a new company charter that articulated the new corporate priorities, stating

> The charter embodies the key elements of sustainable development, which includes our overriding commitment to safety and environmental responsibility, as well as seeking to create value for our shareholders and the communities in which we operate… [leading] to the decision in 2000

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[46] Peter Symonds, "BHP Prepares New Global Strategy at its Australian Iron Ore Mines," World Socialist Website, http://www.wsws.org/articles/2000/jan2000/bhp-j27.shtml (accessed March 1, 2008).

[47] "Our Board," BHPBilliton Official Website, http://www.bhpbilliton.com/bb/aboutUs/companyOverview/ourBoard.jsp (accessed Dec. 15, 2007).

[48] Danny Kennedy, "BHP's Big Mining Mess," *Multinational Monitor* (April 2000), 7.

> to simplify our approach and develop a single Health, Safety, Environment and Community Policy—*Working Responsibly.*[49]

The new policies reflect changes in corporate mentality, which signal the start of double-loop learning. This charter reflects a new focus on the importance of sustainability issues in business decisions, as well as a new emphasis on the stakeholders beyond employees and shareholders. BHP also began to reevaluate its relationship with the PNG government stating that "BHP has changed its government-focused, centralist external relations program to on that is more community-based"[50] and has redefined its stakeholders to include the people of Papua New Guinea beyond the governing elites. By engaging the community and establishing a relationship based on trust and communication, corporations earn not only a license to operate from the host population but also gain popular support that can reinforce an advantageous relationship with the governing elites.

The conscious decision to alter the dynamics of the previously collusive corporate-government relationship highlighted another change in BHP's corporate mentality. The company realized that conspiring with the government at the expense of the host population was not a good long-term method for maintaining social stability and protecting its investment. In 2000, BPH hosted a Forum on Corporate Responsibility which brought senior management members and key NGO advocates to discuss sustainability issues and the company's broader corporate social responsibility agenda.[51] This forum demonstrates a move toward improved stakeholder engagement but was not a

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[49] "Report to Shareholders 2000," BHP Annual Report, 76.
[50] Ibid., 25.
[51] Ibid., 78.

permanent initiative that would bring continued interaction and be the means through which NGOs could continuously provide BHP with valuable critiques, knowledge, and solutions. The forum is an attempt at a social learning and cooperation (SLC) initiative as its goal is to enhance collaboration and encourage learning through dialogue and information exchange.[52] However, this Forum does not provide for the long-lasting relationships between government, business, and NGOs that is necessary for the completion of second and third-loop learning. Successful SLC initiatives present challenges to the overall decision-making framework for all participants, using collaboration over a period of time to alter the relationship dynamics between groups and progress toward value alignment.[53] Because the forum occurred only once and engagement does not include government representation, it cannot successfully facilitate social learning and cooperation or the second-loop of the organization's learning process.

The corporation's new focus on the community did not bode well for the government-business relationship, despite the fact that BHP only partially actualized its new community-base mentality through sporadic external stakeholder engagement. Government concerns were sacrificed for community concerns as the company went too far in its efforts to appease the community, voicing a desire to close down the mining operation altogether, ten years prior to its expected productive end. The company's inability to balance conflicting stakeholder concerns reflects a break-down in the learning process and prevents BHP from reaching double-loop learning in which all sectors' values are synergized. The World Bank supported BHP's decision to close the mine, but

[52] Steven Waddell, *Social Learning and Change* (Sheffield : Greenleaf Pub., 2005).
[53] Ibid.

these proposals were met by fierce hostility by government officials.[54] BHP's initial desire to close the mine went against government interests because the mine was an extremely large contributor to government income. The OTML website states that the mine has generated "significant wealth… through its economic activity, employment and infrastructure development, in particular—[and] has created significant dependencies."[55]

The mining operation, although extremely detrimental to the Yonggom people, did provide many benefits for those employed in and around the mine, especially those working within the government which was largely funded by the mine's profits. According to the OTML website, the Western Provence where Ok Tedi is located has received a total of 1.8 million kina (approximately $1.3million) over the course of the mine's operation. Approximately one-third of this revenue is money paid to the Fly River Provincial government and another one-third is paid to local communities through royalties, rent and leasing agreements, etc. Approximately 332 million kina ($250 million) is used to compensate local employees, 95% of whom are PNG citizens.[56]

By even suggesting that the mine be closed, BHP demonstrated a dramatic reversal from the corporate-government relationship. In initially disregarding the government's opinion on how to deal with the problems of Ok Tedi, BHP demonstrated that it had yet to fully understand how to best collaborate and compromise with external stakeholders. BHP's action reflect an attitude of all or nothing, as the corporation picks side with either the community or the government, having difficulty dealing with these

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[54] Kirsch, op. cit.
[55] "Sustainability at Ok Tedi," OTML Website, http://www.oktedi.com/sustainable/sustainabilityAtOkTedi.php (accessed Nov 20, 2007).
[56] Ibid.

groups' conflicting interests in their decision-making. Had the government not had a legally binding contract with BHP that gave it the ability to resist BHP's divestment, it is probable that BHP would have shut down the operation regardless of government opinion. This highlights that BHP had not yet established mechanisms for social learning and collaboration as the company had yet to understand how to engage *all* stakeholders in a meaningful way that would lead toward cooperation, learning and value alignment.

Nonetheless, BHP did eventually back down from its call to end operations, showing its growing capacity to consider and respond to external stakeholders. When government protests exploded at the prospect of closing the mine, and parts of the Papuan population (those employed by the mining operation) also voiced concerns, the company was finally convinced that cashing out of the operation was a viable alternative. BHP was adamant about ending its own involvement with the mine as soon as possible and protecting itself from future liabilities. The lines of communication between BHP and the community as well as the business relationship with governing officials guided BHP's strategy for exiting the Ok Tedi operation, as there was a new emphasis on doing so responsibly. BHP directly refers to its experience with the OK Tedi mine as an exercise in organizational learning as it helped BPH reevaluate its sustainability policies, leading to the implementation of rigorous social and environmental assessments in the review of capital projects.[57] CEO at the time Paul Anderson expresses these sentiments stating, "there is no question… we are going to be extremely more sensitive to communities' social ramifications and scrutinize what could go wrong a lot more than 10 to 15 years

[57] "Global Responsibility: Health Safety Environment and Community Report 2001," BHPBilliton Oofficial Website, http://www.bhpbilliton.com (accessed Dec 15, 2007) 23.

ago."[58] This attitude led to the creation of the Sustainable Development Program that governed BHP's exit from Papua New Guinea.

In 2001, BHP and the PNG government determined the terms of agreement for BHP's transfer of its stake in the Ok Tedi mining operation. In its Environmental Report in 2000, BHP expresses its desire to exit the project responsibly, making sure to "ensure a smooth transition, minimize the environmental impact, maximize the social benefits" with a Sustainable Development Program.[59] In this program, BHP was scheduled to exit by January 2002 by transferring its majority stake to community trust under the name of Program Community.[60] Project Community ensures that the profits from Ok Tedi do not get channeled into government pockets or BHP profits but are directed back to the people impacted by the Ok Tedi mine and used to fund development projects.[61] Moreover, BHP's Sustainable Development Program requires that the mine's future profits will be used to do further clean-up in the area and that the PNG government continue the river dredging at least until the mine's closure.[62] However, these programs still do not end the dumping of toxic tailings into the river and provide nothing more than monetary compensation to the Yonggom peoples who have lost their way of life. Granted, there is only so much that BHP and the PNG government can do at this point to make up for the damage already done; however, given the devastation of the Ok Tedi and Fly River

[58] Eric Johnston, "Existing Ok Tedi Was Last of Legacy BHP Problems, Says Anderson," *Australian Associated Press Financial News Wire*, (8 Feb. 2002), http://www.factiva.com (accessed Nov 28, 2007).

[59] "BHP Environment Report 2000." BHP Official Website, http://envcommreport.bhp.com. (accessed Dec. 15, 2007) 10.

[60] Sean Smith, "BHP finds PNG Escape Route," *Herald-Sun* (27 Sept 2001) http://www.factiva.com (accessed Jan. 28, 2008).

[61] "BHPBilliton Helps Fund Ok Tedi For 3 Years Under Exit Deal," *Dow Jones International News* (11 Dec. 2001), http://www.factiva.com (accessed Nov. 28, 2007).

[62] Peter Nisei, "BHP Ends Role in Ok Tedi Mining," *PNG Post Courier* (1 Feb. 2002), http://www.factiva.com (accessed Nov. 28, 2007).

systems and those who live around them, these reparations seem inadequate. The actual problem has not been solved, lives have been ruined, and BHP's departure changes none of that. The company's decision to leave and the emphasis on responsibility during the divestment do demonstrate some level of responsibility and consideration beyond the bottom line. Nonetheless, this is an example of partial learning, as the corporation was more interested in serving its interest and cutting its losses that it could only offer minimal improvements in the lives of those it impacted.

Conclusion

The case of the Ok Tedi mining operation demonstrates how collusive relationships between developing governments and foreign investors can have devastating impacts on the host population. By excluding the population from decision making, it took more than a decade for the indigenous Papuans to gain sufficient leverage to force change on the part of the government and BHP. The indigenous people were plagued by a lack of resources and political voice, and it was only when the environmental problems reached crisis levels, that these people able to capture the attention of international non-governmental organizations. The Yonggom people worked through international NGOs, joining international advocacy networks and using their environmental disaster to create a crisis for BHP. The landmark lawsuit against BHP forced the company to open their ears to the concerns of the host population, and this started the cycle of organizational learning.

The initial settlement did not challenge underlying corporate assumptions and as a result, continued NGO advocacy and threats of more lawsuits compelled BHP to undergo changes in leadership with the hiring of new CEO, Paul Anderson. Anderson focused on making internal changes within BHP and was dedicated to dealing with the haunting issues originating from the Ok Tedi fiasco. By continuing pressure and taking advantage of the change in management, NGO advocates successfully were able to integrate themselves into corporate decision-making, as evidenced by BHP's Sustainable Development Program and its revision of corporate charter and corporate social, environmental, and community policies.

Unfortunately, NGOs were unable to pressure BHP into developing a full social learning and cooperation initiative that would permanently incorporate all stakeholders into corporate decision-making. BHP's decision to exit the Ok Tedi investment altogether removed this as a possibility, as the corporation wanted to get out more than it was interested in long-term improvements to its own policies and the affected people of Papua New Guinea. Its efforts to remove itself from Ok Tedi all together, BHP demonstrated the limitations to the lessons learned during this crisis. Although the corporation did change many of its policies and methods for selecting future projects, the company did not challenge its conception of responsibility or liability, continuing to limits its view of responsibility to the short-term. The long-term understanding of responsibility would have compelled BHP to remain an active participant in improving the mine's operations, and would have most definitely brought about an end to the dumping of tailings into the river. The core environmental problems were not solved and the destructive practices were not stopped, even though efforts at damage control were dealt with very seriously. This fundamental problem highlights the limit of BHP's corporate learning and underscores the problems that arise when social learning and cooperation initiatives are not the product of crisis. In the following case study of Dutch Royal Shell's oil extraction operation in Nigeria, the importance of the SLC initiative to long-term corporate change and third-loop learning will become apparent.

Chapter 6
Case Study - Dutch Royal Shell in the Niger Delta, Nigeria

Nigeria sits in the crux of the Western coast of Africa, encompassing the delta region where the Niger River flows into the Gulf of Guinea. The Niger Delta is the largest wetland region in Africa, spanning 70,000 km^2 of land and 27 million people.[1] Those living in this area survive on farming and fishing-based economies, taking advantage the river's resources and the patches of relatively fertile land among the freshwater swamps and mangrove forests.[2] These economic systems reinforce the highly rural disbursement of the population as over 75% of those living in the Delta region live outside the cities.[3] This region has been found to hold vast reserves of oil and natural gas, and this discovery has shaped Nigeria's development, or lack thereof, and is the basis for constant conflict within the country's borders.

The lack of development and extreme poverty that characterize the Niger Delta is ironic considering the enormous wealth several meters below the surface, but this harsh reality has been the case since the discovery of oil over 50 years ago. Nigeria is a prime example of the Resource Curse because although it is rich in this highly profitable natural resource, it has not developed functional political, economic, or social structures, leaving the majority of its population in poverty and the government engulfed in corruption. Nigeria's underdevelopment and the conflicts surrounding the devastating impacts of oil extraction breed high levels of violence and a volatile social environment which

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[1] Uwem E. Ite, "Changing Times and Strategies: Shell's Contribution to Sustainable Development in the Niger Delta, Nigeria," *Sustainable Development* 15(2007): 1-14.

[2] Uwafiokun Idemudia and Uwem E. Ite, "Demystifying the Niger Delta Conflict Towards an Integrated Explanation," *Review of African Political Economy* 33, no 109 (2006): 391-406.

[3] Ite, op. cit.

challenges the legitimacy of the government, further impeding the maturation of socio-political institutions and economic policies.

As the most populous country in Africa, Nigeria is home to more than 250 distinct ethnic groups. It is often termed a state-nation rather than the more traditional nation-state as its colonial history left Nigeria with arbitrary borders encompassing numerous ethnicities, none of whom feel any real inclination to be governed by a single state. There are three competing religions to compliment the ethnic diversity, as half of Nigerians are Muslim, 40% adhere to Christian traditions and the final 10% practice indigenous traditions.[4] Despite this overwhelming diversity, society is not as heterogeneous as that statistic suggests. From the time of independence and continuing to today, two-thirds of the Nigerian population identifies with one of the three major ethnic groups, Hausa-Fulani (29%), Yoruba (21%) and Igbo (18%).[5] These three groups are the most influential within society and politics, and constant competition between them for power has further hindered political development, as ethnic-based patronage has become a cornerstone element of Nigerian government.

Nigeria gained political independence from British rule in 1960, but part of the colonial tradition remained as Nigeria was not liberated from the economic control of British oil company, Royal Shell. In 1937, a joint venture established between Shell and the British government, named Shell D'Arcy was allowed the sole right to explore for oil, stumbling upon the Niger Delta's massive stash in 1956.[6] Oil production began in 1958,

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[4] "The CIA World Factbook -- Nigeria," Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/ni.html (accessed March 6, 2008).

[5] Ibid.

[6] Steven Kretzmann, "Nigeria's 'Drilling Fields,'" *Multinational Monitor,* Jan/Feb 1995.

and because it started while the colonial system was still in place, the country's elites were the only Nigerians given any access to the oil profits.[7] This did not change with independence and the residents of the Delta region were left to endure the social and environmental consequences of oil production without receiving any compensation for the exploitation of their land's resources. The conflict over allocation of oil revenue has been reoccurring throughout history, coming to a climax in the 1990s, as many in the Niger Delta resorted to violence and international advocacy to challenge the multinational oil corporations operating within their borders.

To give an indication of Nigeria's oil wealth and the amount of wealth generated by the extraction of oil in the Niger Delta, Nigeria is now the 6th largest oil producing state in the world, pumping out 2.63 billion barrels of oil daily and exporting 2.2 million of them.[8] Moreover, there are now six major transnational oil companies all vying for a portion of Nigeria's natural resources; Shell, Chevron, ExxonMobil, Texaco, Elf, and Agrip.[9] The Nigerian economy is entirely dependent on this single export resource, and the government has fallen into the trap of the rentier state, relying almost exclusively on rents paid by these foreign companies to support itself as well as local and state governments.

Adelaja Odukoya states that,

> The Nigerian state's insertion into the global capitalist system was a deliberate act of western imperialism to have the country as one of the peripheral social formations for the procurement of slaves in the first

[7] Wale Adebanwi, "Nigeria: A Shell of a State,'' *Dollars and Sense*, July/Aug 2001.
[8] "The CIA World Factbook – Nigeria."
[9] Adebanwi, op. cit.

> instances and, later raw materials and cheap labor for the development of Western Capitalism.[10]

This statement emphasizes the fact that Nigeria, although formally independent in 1960, retains a subservient position due to its oil reserves, an indispensable natural resource that industrialized countries are desperate to exploit. As a result, Nigerian political, social, and economic development has been stunted, leaving many Nigerians to suffer through the environmentally and socially destructive extraction process uncompensated. The climax of conflict between the people of the Niger Delta, Shell Corporation and the Nigerian government that occurred in the 1990s marked a breaking point for all parties involved as Nigerians fought to break the remaining chains of economic colonialism and bring development to their resource-rich but desperately poor region.

A Troubled Government

Nigeria is a text-book example of the extremely damaging consequences that the exploitation of a natural resource, in this case oil, can have on the development of a state. Wale Adebanwi states that the "Niger Delta debacle is a classical case of collusion between international finance capital and a corrupt, morally derelict state."[11] Governing elites and the Shell Corporation have nearly identical interests in the extraction of oil as elites see Shell's investment as a means for increasing their own wealth. The wide gap between elite interests and the needs of the actual population living in the Niger Delta and suffering through the consequences of extraction is further emphasized by the fact

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[10] Adelaja Odutola Odukoya, "Oil and Sustainable Development in Nigeria: A Case Study of the Niger Delta," *J. Hun. Ecol* 20, no.4 (2006):249-258.

[11] Adebanwi, op. cit., 21.

that Nigeria's underdeveloped state is actually beneficial to business investment. Governing elites want foreign investment because oil is the key to their economic viability and the continuation of the current regime. Over the past half century, Nigeria has seen seven military governments, seven military coups, and three unstable civilian governments. Conventional wisdom would tend to assert that this political instability would discourage foreign investment as it would make businesses nervous about the security of their investments. However, Jedrzej Frynas argues that in Nigeria's case, political instability does not in any way discourage Shell from investing because it is only moderate instability that has actually work in Shell's favor.[12]

Frynas differentiates between political and policy instability to highlight how risk management is a driving force behind the development of corruption in government. Risk management is a core business goal and refers to the expectations regarding potential future instability that could impact an investment's value or future profitability. Stability, on the other hand, is a more abstract concept dealing with the uncertainty surrounding everything that could impact a company's assets. When these concepts are linked specifically to foreign investment, political instability becomes a relevant factor, as it refers to actual changes in regimes or forms of government. Political instability is extremely high in Nigeria, as manifested by the seven military coups that have forced changes in regimes again and again. Policy instability refers only to inconsistency or erratic changes in governing policies that impact business and policy instability is quite low in Nigeria despite the high levels of political instability.

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[12] Jedrzej George Frynas, "Political Instability and Business: Focus on Shell in Nigeria," *Third World Quarterly* 19, no 3 (1998):457-478.

Regardless of ethnicity or political affiliation, all elites share the common interest of keeping business in Nigeria and maximizing profits from the extraction of oil. Oil is clearly the dominant force driving the Nigerian economy, and the Nigerian state simply could not sustain itself without oil revenue and the rent paid by foreign corporations. Somewhere between 90-95% of export revenue is derived from oil alone, generating over $300 billion over the past 40 years.[13] One quarter of the Nigerian GDP and 70% of the major budgetary revenues come from oil products, making the state undeniably dependent on oil profits.[14] As citizens of a rentier state, Nigerians see oil as the only wealth within the country and subsequently, there is fierce competition among elites for control of that wealth. The combination of high political instability and low policy instability creates very high incentives for elites to engage in corruption because officials realize that their time in office is temporary and could be forcibly taken from them at any time. Elites within society consider government a means of amassing personal wealth, using the state apparatus to secure resources for themselves and their popular, generally ethnic based, support group.[15]

This problem of abusing the state apparatus extends beyond the federal level and has resulted in an ever growing problem with the increasing state dependence on the federal government for monetary support and hand-outs. According to Anna Zalik, states receive between 70% and 80% of resources from the oil industry despite the fact that oil extraction occurs almost exclusively in the Niger Delta and in off-shore operations. One

[13] Adebanwi, op. cit.
[14] Frynas, op. cit.
[15] Idemudia and Ite, op. cit.

would think that those states where the oil was extracted would receive the largest cut of the profits; however, this is almost the exact opposite of reality. The large ethnic groups that control politics channel money to the regions where their people reside, and because there is no ethnic group large enough in the Niger Delta to have ever had any chance at controlling the state apparatus, the region is largely ignored by the central government. In fact Idemudia and Ite comment that, “Five southern oil producing states that accounted for 90% of oil revenue received 19.3% of allocated revenue and the five northern non-oil producing states conversely received 26% of all allocated revenue.”[16] The 19.3% is the current level of revenue allocated to oil producing states in the Niger Delta and is an extremely recent change in policy. Until 1998, only 3-5% of resources were reserved for oil-producing Della states despite these states’ consistent role of dominate oil producer.[17]

The number of states has expanded dramatically since Nigerian independence, and this again reflects how elites manipulate political structures for their own gain, increasing their portion of the country’s wealth. Starting with three states, Nigeria now has 36 distinct states all with their own bureaucracies, budgets, and needed resources. Zalik asserts that states are used as “conduits for channeling resources directly to regional and ethnic power-holders,”[18] as the creation of new state bureaucracy allows officials to direct federal government funds to a specific group of people. The effectiveness with which elites can misuse political institutions for personal gain has enabled elites to provide policy stability for Shell despite political uncertainty.

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[16] Idemudia and Ite, op. cit., 397.
[17] Adebanwi, op. cit.
[18] Anna Zalik, ‘‘The Niger Delta: ‘Petro-violence’ and ‘Partnership Development,’” *Review of African Political Economy* 31(2004): 401-424, 404.

Because no elites can escape the inherent dependency on oil producing and subsequently, rent paying multinational corporations, governing elites offer a privileged and collusive relationship to compensate for the political instability. By maintaining consistent policies and giving Shell (and other major MNCs) preferential access to the state in return for continued investment, Nigerian government remains in essence a greedy and dependent rentier state regardless of regime. Shell has become one of the only stable components of Nigerian politics, retaining influence over the state longer than any actual governing regime. This enables Shell to protect one of its most important investments and continue to profit from Nigerian oil despite the extreme underdevelopment, social violence, economic volatility and political instability.

Corruption and Collusion: Shell and the State

Shell Corporation is the sole owner of Shell petroleum Development Company (SPDC), also known as Shell Nigeria. It is this company that operates within Nigeria's borders and is one of Shell's most important ventures as its activities account for 14% of Shell's total production.[19] The SPDC, although under full ownership by Shell corporation, has been run as a joint venture since 1973 between Shell (30%), the Nigerian National Petroleum Corporation (55%), Elf (10%) and Agip (5%).[20] This system further engages the government in corporate activity, harmonizing their interests completely. To further highlight the similarities between corporate goals and those of governing elites, Shell evaluated the Nigerian government in 1970 on its production and take motivation,

[19] Kretzmann, op. cit.
[20] Frynas, op. cit.

as well as its absorptive capacity. These terms refer to the states' desire for high depletion of oil reserves, the state's desire for a high take of oil revenue, and the state's ability to absorb revenue. Nigeria scored highly in all of these areas, reflecting the fact that governing elites were ready and willing to fulfill the corporate desire to completely and fully exploit the country's resources. Frynas states that "according to these criteria, corruption, mismanagement, reliance on oil of the right to unlimited destruction of the environment may paradoxically be conducive to business,"[21] emphasizing the questionable foundations on which corporate-government relationship in resource rich countries is formed. In the interest of stability and profit both sides are incentivized to indulge in corruption and have little motivation to worry about actual governance because the corporation, not the host population, is providing for the government's continued survival.

Nigeria is notorious for the corruption that takes place in every facet of government. The ethnic-based politics push parties to establish patronage systems that require the diversion of government funds for bribes and kickbacks. Moreover, the military regimes that controlled the country were in no way accountable to the public, and the lack of transparency brought down the risks associated with corruption, further growing the culture of illegality. Under civilian governments and supposedly democratic structures, the greater population remained largely isolated from government. Particularly in the Niger Delta, individuals were lacking in education, financial resources, and did not even have sufficiently developed infrastructure to leave their rural homes for the voting

[21] Ibid., 473.

booths in urban centers.[22] As a group of ethnic minorities, the people in the Niger Delta were politically marginalized, consumed by poverty, abandoned by the government, and left to endure the pain of oil extraction alone. According to Transparency International, Nigerians surveyed in 2002 saw corruption as rampant within society, infecting politics, culture, and the economy. When asked whether corruption impacts personal or family life, 88.7% of respondents confirmed that it did somewhat or very much, and similarly, 93.5% responded yes to corruption impacting the business environment. The survey goes on to identify 90.7% Nigerians as considering corruption as impacting political life and 86.0% see its influence over culture and values.[23] These survey results show that corruption is an undeniable problem in Nigeria and that its consequences have spread to all facets of life, severely hindering that state's development.

The corruption is debilitating, preventing the Nigerian government from being an effective governance apparatus. Because government is weak, the corporation has all the more authority over policy development and implementation. The gap between policy and implementation that the weak government cannot fill creates space for corporations to extend their own authority over operations. Without government oversight, companies are empowered to conduct business however they see most effective and profitable. The host populations that are working and living with the company are left without any protection from this foreign corporate force as the state, the traditional advocate and protector of the people is no longer interested in protecting them. Instead, the government

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[22] Zalik, op. cit.

[23] "The Transparency International Global Corruption Barometer 2002," Transparency International, http://www.transparency.org/policy_research/surveys_indices/gcb/2003__1 (accessed Feb 2, 2008).

wants to appease the corporation more than it wants to pursue the popular interests and this situation results in the exploitation of Nigerian citizens.[24]

In the case of Shell in Nigeria, government leaves it up to the company to independently settle disputes over land claims and compensation for property and labor. Moreover, the government lets the company autonomously conduct the environmental impact assessment of operations and to determine the causes and cost of damages to corporate property due to sabotage and local skirmishes.[25] The lack of oversight encourages companies to be dishonest, overlooking negative environmental impacts, claiming spills caused by negligence as sabotage and overestimating damages for a little extra profit. Manby points out that in giving the company such powers over land disputes results in "the affected communities [being] in a weak bargaining position, largely obligated to accept whatever compensation is offered by the companies."[26] Without regulations or monitoring, communities are left vulnerable to the whims of the corporation that is not primarily concerned with community well being or development.

In some situations, there are regulations that attempt to constrain corporate actions; however, the government's ineffectiveness makes enforcement impossible, and regulation becomes nothing more than an empty attempt at pacification. Nigeria's inability to enforce regulation encourages companies to cheat in the face of laws, refusing to take responsibility for any and all problems that can be blamed on others. Frynas states that the lack of enforcement means that "Oil companies have incentives to blame oil

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[24] Eleanor O'Higgins, "Corruption, Underdevelopment, and Extractive Resource Industries: Addressing the Vicious Cycle," *Business Ethics Quarterly,* 16 (2006).

[25] Bronwen Manby, "The Role and Responsibility of Oil Multinationals in Nigeria," *Journal of International Affairs* 53, no 1 (Fall 1999):281-301, 287.

[26] Ibid., 287.

pollution on political instability such as sabotage because there is no comprehensive legislation on compensation payments… [and] if a company claims sabotage in court, it can possibly escape legal liability."[27] Not only are companies able to avoid paying for the damage that they cause local communities but the system actually encourages companies to constantly deny responsibility for problems they create. Pollution and dumping, which have historically been tolerated in Nigeria, are no longer consequential and as a result, corporations get into the habit of blaming hostile civilians for the corporation's pollution activities. The lack of a functioning judiciary branch only makes the situation worse, as civilians are further disempowered relative to the corporation. Even in the case that some civilians had proof of pollution as a result of corporate neglect or wrongdoing, there is no institution for them to bring their case. The people of Nigeria, particularly those exploited in the Niger Delta have no political or judicial means for conflict resolution and have no way to engage Shell or any other foreign oil corporation in solving the innumerable problems damaging their region.

The exploitation and disempowerment of the citizens of the Niger Delta, reinforced by distrust built by the corporation's consistent refusal to accept responsibility for any of the area's hardships, creates an extremely hostile relationship between the Niger Delta communities and Shell Corporation. Collusion with the government and blatant disregard for the community's wellbeing creates high tensions in an already volatile social situation. Fierce government repression and intervention on the side of the corporation in virtually all cases further worsens the situation. The Niger Delta

[27] Frynas, op. cit., 465.

communities, left with no other alternative, challenge the government and corporate tyranny in a phenomenon termed "petro-violence." According to Zalik, petro-violence results from "the joint security imposed by the Nigerian military and oil companies to police their installations and the environment of social unrest that surrounds petroleum extraction."[28] Oil companies hire supernumerary police forces that are trained and officially accountable to the Nigerian military institution but these forces are paid for by the corporations, generally at rates much higher than the federal government doles out to its own soldiers.[29] The higher wages and employment opportunity creates a relationship in which the soldiers become allied with corporations and are no longer objective protectors of social stability and the Nigerian population. Shell's privileged position among governing elites in essence, allows Shell the ability to buy the rights to the state's monopoly on the legitimate use of force, demonstrating how easily the corrupt Nigerian government can be bought and abused for monetary gain.

Despite efforts to fight back, the affected communities in the Niger Delta are mercilessly outnumbered, as even under the civilian government in 1999 there were thousands of soldiers deployed with the sole responsibility of defending oil production.[30] The River State Internal Security Task Force was a particularly infamous military unit constructed for the sole purpose of protecting oil production, deployed into the Ogoniland of the Delta region. In 1997, the Task Force was deployed in response to violent riots and protests of the Ogoni people living around Shell installations. The Task Force highlights

[28] Zalik, op. cit., 402.
[29] Manby, op. cit., 289.
[30] Ibid., 289.

the collusive relationship between the government and Shell Corporation as the London *Observer* revealed a deal in which Shell purchased arms for Nigerian police forces in 1997.[31] Shell Corporation's close connections to the government, financial support for military units creating terror among communities and its refusal to make any efforts to curb even the most violence dictator's behavior brought criticism raining down on the corporation. The River State Task Force made this connection all too clear, as the task force's leader "publicly claimed to be taking action so that Shell's oil production could resume," and coercing members of the community to sign letters inviting Shell back to their region to resume production.[32] The partnership between company and government resulted in the violent repression of already exploited and marginalized people living around oil production sites.

Left with no other options, communities were forced to organize and resort to violence and political agitation to call attention to their plight. The government's willingness to abuse Nigerian civilians all in the name of increasing profits from oil extraction and the corporation's refusal to act in anyway responsible for the consequences of oil production created a region about to explode. It was inevitable with the high levels of corruption, collusion, and violent oppression that the citizens of the Niger Delta would fight back, eventually creating a crisis that Shell Corporation could not ignore or deny.

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[31] Adebanwi, op. cit.
[32] Manby, op. cit., 294.

A Troubled People: The Ogoni of the Niger Delta

The people of Nigeria, particularly those of the Niger Delta region, have suffered immensely under the corporate-government alliance that puts a premium on profit at the expense of the population. Within the 70,000km^2 of land and water that make up the Niger Delta region, 27 million Nigerians reside, most of them living subsistence based lifestyles in rural areas.[33] The average standard of living reflects a per capita income in the Delta region that is far below that of the $260 national average and unemployment in the region's cities is rampant. For example, in 2005, Port Harcourt, one of the largest cities in the Niger Delta, has a 30% unemployment rate while the rest of Nigeria averages 5.4% unemployment.[34] Granted only a quarter of the population call the cities home, but even this minority group cannot adequately support themselves in the Delta region as the area's lack of development has left many poor and without hope of improving their situation. The lack of education in the area is also staggering as less than one-third of children attend primary school. On average, 75% of children throughout the rest of the country attend school and the lack of access to education only makes access to jobs or economic opportunities fewer.[35]

Growing awareness of these disparities in wealth and opportunity for those living in the Niger Delta has fueled popular hostility toward the government and Shell Corporation. The major question promoting conflict in the Niger Delta crisis is the "issue of '*who gets what, when and how'* of the proceeds from the oil resources found in the

[33] Ibid., 288.
[34] "The CIA World Factbook – Nigeria."
[35] Manby, op. cit., 288.

belly of the soil of the Niger Delta people."[36] The extreme poverty and underdevelopment of the Niger Delta is incongruous considering that it is this area where so much wealth is produced. The people of the Delta region demand that they be in some way compensated for the resources that reside in their land. Unfortunately, neither the corrupt government nor profit-driven multinational oil corporations are interested in accepting reductions in their own income for the sake of the people of the Delta. Subsequently, the state and its corporate supporters have responded to problems in the Niger Delta in three ways: state terrorism, intentional instigation of communal discords and ethnic conflict, and the creation of development commissions.[37] Of these three approaches, the last seems most promising, however the only major development commission created during the conflict ridden 1990s was the Oil Mineral Producing Areas Development Commission of 1993, which was utterly useless. Under General Abacha this commission was quickly overtaken by corruption and become nothing more than a new way to funnel government kickbacks to soldiers and supporters.[38] The issue of development and allocation of oil revenue remained unresolved impacting all the communities in the area, but one group in particular has been vocal in their challenges to the government and Shell and subsequently, has been most abused.

The worst of conflicts resulting from the petro-violence phenomenon have taken place in Ogoniland which lies within the boundaries of River State. Violence has not been a historic tradition for this area as the 1970s were peaceful years, and the 1980s only

[36] Odukoya, op. cit.
[37] Ibid.
[38] Adebanwi, op. cit.

saw some sporadic, low level conflict. However, in the 1990s, conflict exploded as Ogoniland became destabilized and violence became the norm.[39] Because of historic political marginalization, the people of Ogoniland experienced “backwardness, poverty, illiteracy and more recent social instability.”[40] The volatility was so high in the area that Shell actually stopped its operations in Ogoniland in 1993 as a result of violence and irreconcilable conflict. Shell, although on temporary hiatus from production there, still holds the rights to the natural gas and oil reserves in the area and has not ruled out the possibility of at some point resuming work there. Even though Shell has stopped active production in the area, there are still heightened levels of violence that require a large military presence. As mentioned before, the River State Internal Security Task Force was formed for the specific purpose of keeping order in this area, and General Abacha (dictator from 1993-1998) on numerous occasions sent soldiers into Ogoniland to rape and pillage Ogoni villages.[41] Despite the intense efforts by government to suppress these people, the Ogoni have been the most successful group to organize, winning international attention for their plight and creating a crisis situation that Shell could not avoid.

The Ogoni are a small ethnic group in the Niger Delta consisting of about 500,000 people. Ogoniland is the area of the Delta where members of this group live, and it is extremely rich in oil and natural gas reserves and has been home to Shell installations since the 1960s. In the early 1990s, writer and advocate Ken Saro-Wiwa established the Ogoni Central Council in an effort to end “development neglect” and win access to an

[39] Idemudia and Ite, “op. cit.
[40] Ibid.
[41] Manby, op. cit.

increased percentage of oil revenue.[42] Up until 1998, the communities in the Niger Delta, the Ogoni included, saw between 3-5% of the oil revenue as that was as much as the central government was willing to part with. Saro-Wiwa and his Ogoni supporters argued that "in the past 30 years, Ogoni land provided the government with $2 billion and in return, the Ogoni had received nothing,"[43] criticizing the government for denying the Ogoni people political representation, clean water, electricity, job opportunities and even failing to use government funds for socio-economic support. The Ogoni Central Council soon expanded and gave rise to the Movement for the Survival of the Ogoni People (MOSOP), and this movement untied the Ogoni people behind the demand for compensation and development. This movement was well coordinated and set the precedent for other similarly plagued people (such as the Ijaws, the Itsekiris and the Ondos) to fight back against their corporate and government oppressors. The MOSOP internationalized the plight of the Ogoni people, highlighting how such an important and wealthy company like Shell was acting irresponsibly and destroying peoples' lives.[44]

There were many factors working to unite the Ogoni people behind the MOSOP, enabling them to make a compelling case to the international community and to develop massive transnational support. The social drivers behind the MOSOP were largely related to relative deprivation and a heightened awareness of relative poverty and lack of development. It was obvious that those residing in the Delta were subjected to the worst conditions of the state especially when compared to other parts of the state and more

[42] Adebanwi, op. cit.
[43] Ibid.
[44] Idemudia and Ite, op. cit.

importantly, relative to other ethnic groups. This relative deprivation was reinforced by the high levels of youth unemployment, leaving young adults roaming the streets feeling disempowered and alienated, and easily manipulated by elite agitation. Moreover, the constant reminder of oil as a finite resource keeps society on edge as abandoned pipes and infertile land remind people of the long-term consequences of oil and the unpromising future after the oil companies' departure. Oloibiri is the first oil extraction, and now with its reserves exhausted, it is nothing more than a ghost town lacking the signs of prosperity such as electricity, running water, and roads that it once had during the peak of its prosperity.[45] Oloibiri acts as yet another reminder of what will become of the Niger Delta once the oil is gone and this destitute image creates an atmosphere of fear and desperation among the delta communities.

Environmental issues are also of great concern to the Ogoni people and are intimately connected to social and economic problems. The Ogoni, like the majority of people living in the Niger Delta, depend on the environment to support their farming and fishing based lifestyles. The extraction of oil has dramatic impacts on the environment, especially in such a fragile environment as the delta. The flooding patterns essential to farming have been altered by poorly designed canals constructed by the oil companies. By disrupting the natural flows of water, oil extraction has exacerbated erosion problems, has caused the destruction of arable land and reduced fish levels.[46] The water supply has also suffered greatly because of chemical pollutants and constant oil spills have reduced the amount of safe drinking water in the area. Between 1976 and 1996, there were 4,835

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[45] Ibid.
[46] Manby, op. cit.

reported oil spills, a loss of at least 2,446,322 barrels (103.7 million gallons) of oil into the environment. These spills devastate land, reducing its fertility and limiting the amount of arable land which is already a scarce resource in the region.[47] The expansion of oil structures also further reduce the amount of available land, displacing people and forcing them to relocate to cities where they do not have the job skills or education to find another profession.

Environmental issues were the strongest unifier among the Ogoni people and one of the most compelling elements of their international campaign against Shell Corporation. Environmental degradation is something that all the Ogoni people had experienced and was a concrete problem that could been seen and easily understood. The common anger regarding environmental destruction made violence a more acceptable means for expressing their frustrations with Shell and the government because the cost of violence could be spread among more people.[48] Environmental issues and the very visual oil spill, gas flaring, water contamination, etc were essential to associating Shell's activities with responsibility for the Ogoni problems. In order to pressure a corporation and effectively campaign against it, a chain of responsibility must first be established. In this case, linking of problem to Shell was best done through environmental issues as the media could use images and symbolic politics to simplify the region's history and give a simple narrative that held Shell responsible for Ogoni hardship.

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[47] Idemudia and Ite, op. cit.
[48] Ibid.

The Breaking Point: Creating a Crisis

The Ogoni movement coincided with several dramatic events that allowed advocates to push Shell into the public spotlight, framing the corporation as directly responsible for the problems plaguing the people of the Niger Delta region. The environmental problems in Nigeria were made all the more relevant with Greenpeace's over-taking of Brent Spar to protest Shell's intended environmental abuses in the Baltic Sea in 1995. Moreover, the hanging of Ogoni activist Ken Saro-Wiwa and eight of his supporters by the Abacha regime created a single symbolic event that embodied a pattern of government abuse and terrorism. Boris Holzer notes that,

> Shell may not have been responsible for the domestic human rights situation of the distribution of oil revenues in the first place, but the construction and allocation of such responsibility forced the corporation to act upon that assumption nonetheless.[49]

An intense and unrelenting public campaign punctuated by dramatic protests in Europe created a crisis for Shell Corporation, forcing the company to take an honest look at what was happening in Nigeria and alter its strategy to deal with the issues that advocates keep bringing up.

Activists successfully trapped Shell between local community, national government and public opinion, as the campaign used local problems and government abuses to shape public opinion. In order to form public opinion against Shell, activists had to first establish that Shell was actually responsible for the plight of the Ogoni people. Unlike a government, it is not given assumption that corporations have any

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[49] Boris Holzer, "Framing the Corporation: Royal Butch/Shell and Human Rights Woes in Nigeria,'' *J Consum Policy* 30(2007):281-301, 297.

responsibility to protect the communities around their areas of operation in that same way that it is assumed that governments have an inherent obligation to protect their citizens. As a result, it is essential to first establish that the corporation has engaged in some sort of wrongdoing and now is obligated to provide compensation even though the company may not be the only perpetrator in the situation.

Holtz describes that approach the activist employed as "discursive political consumerism… [that establishes] through a public discourse that necessarily reduces social reality by powerful and widely accepted narratives."[50] Activists intentionally gloss over subtleties of the situation and the actual constraints on the company so as to emphasize the corporation's responsibility. Although it is clearly impossible for a single company to create development or reverse a legacy of environmental degradation without some support from the government or community cooperation, advocates focus on the corporation's potential to work towards these goals. By focusing on a corporation's huge profit margin and contrasting that with the cost necessary to facilitate development and environmental reconstruction, advocates simplify the story line so that the corporation's neglect and responsibility are all the more apparent. This exaggerated storyline serves the purpose of grabbing public attention and creating an effective, although somewhat hyperbolic context that frames the company as obligated to react.

Increasing violence in the Delta region, Greenpeace's attack on Brent Spar, the hanging of Ken Saro-Wiwa all occurring within rapid succession in 1995 made it impossible for Shell to avoid public attention and scorn. Brent Spar was an oil rig in the

[50] Holzer, op. cit., 283.

Atlantic Ocean that was overtaken by Greenpeace advocates in their protest of Shell's plan to release unused oil directly into the sea. Greenpeace made exaggerated claims about the amount of oil that was going to be dumped into the ocean, and their tactics were indisputably alarmist. However, in overstating the problem, Greenpeace made the desired impact on the minds of European and American consumers.[51] The Sierra Club supported Greenpeace's efforts, increasing consumer pressure across the ocean and calling American consumers to participate in the boycott of Shell advocated by Greenpeace. Both groups organized protests and demonstrations in front of Shell service stations as well as corporate buildings, making Shell's environmental transgressions an inescapable topic that the company was forced to address.[52] The Brent Spar incident was used as a single representation for poor environmental practices all over the world and connected the local protests in Ogoniland with the global Shell operation. In citing Brent Spar as the latest example of a history of irresponsibility, international NGOs linked the problems in the Niger Delta to a broader campaign, reinforcing Ogoni protests. The enthusiastic participation in the protests against Shell's environmental practices brought the company into the mainstream media's focus, making it all the more vulnerable to a second wave of public pressure criticizing Shell's human rights record.

The hanging of Saro-Wiwa, which occurred only months after the break of the Brent Spar story, became a similar dramatic example of Shell's wrongdoings, propelling another campaign against Shell around the issues of collusions and human rights abuses.

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[51] Holzer, op. cit.

[52] Kenneth A. Rodman, "Think Globally, Punish Locally: Non-State Actors, Multinational Corporations and Human Rights Sanctions," *Ethics and International Affairs* 12 no.1 (1998):19-41.

The execution of Saro-Wiwa was clearly a crime committed by the government, not Shell Corporation itself, but Shell was nonetheless depicted as the strongest force behind the government's abuse of the Ogoni people and the execution of their movement's leader. Shell was framed as being complicit with this murder and a silent supporter of the regime that was committing these violent acts. Amnesty International had, prior to the execution, appealed to Shell to use its undeniable influence to push for clemency for Saro-Wiwa. Shell's singular written request for clemency was not considered sufficient and Amnesty International led the attack on Shell for neglecting to use its power to protect human rights.

The Nigerian government actually supported this view of Shell as the main force behind the problems in the Niger Delta, using the corporation as a scapegoat for the problems the region faced. The government's inability to provide basic developmental necessities and infrastructure for their people and the government's disinterest in changing its policies to deal with this shortcoming encouraged elites to accuse Shell of acting irresponsibly. The government created a culture of blame that pointed the finger at Shell for the region's hardships even though the community was dependent upon the company only as a result of the government's inadequacies.[53] Shell was inherently a political actor in Nigeria because of its massive wealth and the vast leverage it held over the state, as the governing apparatus was largely dependent on Shell's continued investment.[54] Shell's appeal for clemency looks like nothing more than a public relations plan to ensure that Shell can point to this singular act and claim to be on the side of

[53] Ite, op. cit., 3.
[54] Holzer, op. cit., 294.

human rights, not backing the abusive government. Activists were unconvinced by Shell's denials that the letter was a calculated political maneuver and used this to emphasize their point that Shell's collusion with the Nigerian government made the company responsible for the plight of the Ogoni people. Later appeals by Amnesty International fro Shell to encourage the government to release political prisoners went unanswered, further reinforcing the image of Shell as unconcerned with human rights or the injustices committed by the business-friendly Abacha regime.[55]

The execution and continued oppression of Ogoni leaders gave more fuel to an already blazing fire, as demonstrations at offices and service stations continued and activists brought government officials into the protests. Several human rights groups in the United States lobbied representatives and were able to get a bill proposed in Congress that would freeze Nigeria's assets and ban new investment in Nigeria.[56] President Clinton even offered to pass this law by executive order with bipartisan support. Although voted down in the House of Representatives and rejected by European leaders, this gesture alone made a strong statement to Shell that many of the company's consumers were extremely serious about addressing the situation in Nigeria and forcing some sort of change. In addition, some cities in the United States passed laws requiring local governments to consider human rights and greater corporate responsibility criteria when selecting companies for government contracts.[57] This was a direct attack on the company's profits as the government is a prime consumer of Shell petroleum products,

[55] Rodman, op. cit., 36.
[56] Ibid., 36.
[57] Rodman, op. cit., 36.

leaving Shell no choice but to address human rights issues or risk losing the profits associated with government contracts.

Protestors also influenced stakeholders directly, holding signs reading "MURDERERS" outside the 1995 shareholder's meeting. By 1997 activists finally made it through the front door of the shareholder's meeting as Shell faced a resolution from a group of UK shareholders demanding to have the executives responsible for environmental and social responsibility named. This group of shareholders tried to force Shell to establish an explicit chain of accountability within executive management for the crises of recent years. The group also wanted Shell to adopt global reporting standards on corporate responsibility issues so as to begin reducing future risks of similar problems. This resolution was rejected by the Board of Directors but the message was clear; the company needed to make some changes and quickly.[58] Pressure from the shareholders brought protests into the company, leaving executives and Directors no choice but to reevaluate the company and make major structural and strategic changes.

The culmination of the dramatic events of 1995 allowed Nigerian advocates like MOSOP and their transnational supporters to frame Shell Corporation as responsible for the problems plaguing the Niger Delta and more importantly, pinning the corporation as obligated to do something about the problems it created. Initially, Shell refused to even comment on criticisms of collusion surrounding Saro-Wiwa's execution, thinking that doing so would give legitimacy to the claims. By remaining quiet, Shell thought the problem would go away, but this was not the case as a network of transnational advocates

[58] Philip H. Mirvis, "Transformation at Shell: Commerce and Citizenship," *Business and Society Review* 105 no.1 (2000):63-84.

successfully solidified public opinion against Shell. As protests and boycotts erupted throughout Europe and the United States, Shell faced a very real crisis as such market instability threatened profits and therefore the company's continued viability. This crisis situation forced Shell to reevaluate its operations and start the process of organizational learning and corporate change.

Organizational Learning: The Process of Change

Shell was extremely slow to respond to public pressure, responding to criticisms by blaming external issues and emphasizing Shell's lack of control over all things not directly related to the process of oil extraction. Shell could not be blamed for oil spills because they were the result of malicious sabotage. Shell was not responsible for environmental problems in Ogoniland because their operations stopped in 1993. Shell was also not obligated to facilitate development or protect human rights in the Niger Delta because those were government responsibilities, and Shell's role was like any business, to generate wealth and follow legal regulations.[59] Although there may be some legitimacy to these rebuttals, critics would not be discouraged and continued to attack internal corporate motives and emphasize Shell's social and environmental responsibility to the communities impacted by its operations.

Shell could not fully withdraw from Nigeria because it was too important to the company's investment portfolio and its profits. Shell's vested interest in Nigeria gave advocates more leverage because Shell could not simply cut and run, dropping the

[59] Ite, Uwem, "Poverty Reduction in Resource-Rich Developing Countries: What Do Multinationals Have to do With It?" *Journal of International Development,* 17 (2005): 913-929.

investment to avoid future criticism and liability. Critics remained fierce throughout the 1990s and subsequent years, exploiting the frame of responsibility established in the middle of the decade. Advocates focused on the fact that the corporation had the capacity to change the situation in Nigeria although all these problems and their solutions were realistically not totally under the control of Shell.[60] Advocates, in their campaign against Shell, effectively created this illusion that Shell could single-handedly improve the situation in Nigeria, and subsequently could hold Shell directly accountable for producing results and tangible improvements in the region.

Although still retaining its claims of innocence, in the early 1990s, Shell started to implement several development-geared projects designed to bolster infrastructure, education, and community relations.[61] This was a revival of Community Assistance (CA), a corporate strategy for dealing with the community that began back in the 1960s. The increase in Community Assistance efforts reflected Shell's initial response to the crisis situation it faced, engaging in single-loop learning to deal with the crises' immediate consequences. Single loop learning involves the recognition of a problem caused by corporate practices and the process the company engages in to develop a new strategy to deal with the problem. This level of learning does not challenge or strive to alter the basic assumptions behind the practice, but instead wants only to improve corporate effectiveness by cutting out or altering practices that detract from efficiency or productive capacity. There is no change made to the actual corporate structures, and the main

[60] Holzer, op. cit.
[61] Adebanwi, op. cit.

objective is damage control, dealing with immediate consequences and making minor adjustments to compensate for the set-backs the instigating crisis caused.[62]

In the case of Community Assistance programs, Shell began to increase the number of projects funded for the sake of improving its public image and to combat the fierce critical attacks from community advocates and their supporters at home. Shell's initial reaction to critics was to counter the bad press by implementing programs which it could point to as its contribution to communities. Community Assistance programs were sporadic, largely uncoordinated and ad hoc programs funded by Shell and based on the company's assessment of community needs. These efforts were not looked upon favorably by the community as they were considered an additional form of rent paid for the right to abuse and exploit their land.[63] Because the communities were getting less than their deserved share of oil revenue, these development projects were another means that Shell used to maintain its license to operate within the community and could not be considered any form of responsible behavior but simply an extension of an insufficient, non-negotiable compensation package. The communities would not be bought, and advocates would not be fooled by these unenthusiastic attempts at assistance. The unrelenting advocacy and crisis situation created in 1995 forced Shell to continue the corporate learning process.

Shell signaled the commencement of the second-loop learning process, announcing major policy changes in 1997, presenting a new strategic approach to community relations and social responsibility. After three meetings of the top 50

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[62] Steven Waddell, *Social Learning and Change* (Sheffield : Greenleaf Pub., 2005).
[63] Ite, op. cit.

corporate leaders of the operation, executives decided to revise the company's general business principles which had remained untouched since 1976.[64] In this new version, Shell expressed a new emphasis on sustainability and corporate responsibility in their policies and practices. Shell created a new Social Responsibility Committee that oversaw an innovative sustainable development management framework based on a roadmap outlining future Olympic Goals which included the eventual implementation of a formalized Social Responsibility Management System. For the immediate future, Shell developed an internal Social Accountability Team tasked with developing a Total Net Value Added metric that would quantify and reflect Shell's contribution to regional development.[65]

Shell Nigeria specifically also made changes within its policies, revising its Community Affairs, Safety, Health, Environment, and Security policies with increased emphasis on community development. Structural changes were also made as Shell Nigeria created multidisciplinary teams within a new community development programs department that improved coordination and implementation of CD plans and focused on encouraging further stakeholder engagement.[66] These structural changes demonstrated an effort on Shell's part to go beyond single-loop learning's damage control to the development of entirely new policies and practices to prevent a repeat of the crisis in the future.

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[64] Mirvis, op. cit., 67.
[65] Peter Knight, "The Shell Report 1998" Second Edition, July 1998.
[66] Ite, op. cit.

In 1998, Shell announced a new corporate strategy for dealing with problems in Nigeria, this one called Community Development (CD). The CD strategy called for the establishment of Community Development Plans within specific communities, allowing communities to work in conjunction with Shell to develop these plans. Individuals within the community were allowed and actually encouraged to take ownership of development plans, overseeing their implementation. The CD strategy, in focusing on community ownership, encouraged a multi-stakeholder approach, bringing community members, local government officials and corporate managers together in the development of these plans. Although this approach placed more emphasis than before on stakeholders in development initiatives, there were still significant gaps in the communication between the company and the communities, preventing engagement from being fully effective.[67] The CD approach was unsuccessful in creating feelings of ownership among community participants and projects were poorly coordinated, preventing the company from maintaining enough control over engagement and project management so as to see the project through to completion. Plans were left partially completed and became a source of rapidly increasing costs for the company with virtually no progress to show as a result.

The Community Development approach and the changes in corporate structure were the results of "an intense, global examination (led by top management) of the changing expectations that stakeholders had of a global business such as Shell."[68] This highlights the fact that corporate executives began to challenge the conventional wisdom that guided their decision-making and developed a strategic response plan that better fits

[67] Ite, op. cit.
[68] Ibid., 6.

the changing social expectations of corporate obligations. The new strategic approach to development problems in Nigeria was also reinforced by the release of Shell's first non-financial, corporate social responsibility report, "Profits and Principles—Does There Have to be a Choice?" In this report Shell outlines for the public the formal policy changes within the corporation and gives examples of how the new Statement of General Business Principles is put into action around the world. The report also includes discussions of the biggest dilemmas facing the Shell Corporation in 1997 and input from Chairman Cor Herkstroter on Shell's transformation.[69] The main objective driving the release of this report was to receive more feedback from the general public as Shell included "Tell Shell" reply cards and postmarked return envelops that invited readers to respond to the report.

NGOs took advantage of these cards, providing responses to Shell's report and the company actually earned praise "for candor, humility, and an even-handed review of dilemmas facing the company."[70] This report and a relatively favorable response from external stakeholders was a constructive move toward the second stage of the learning process. A fundamental aspect of double-loop learning is that corporations resolve incompatible organizational norms like profit maximization and sustainable development by setting new priorities and restructuring associated strategies and assumptions. The creation of new institutional structures and policies that reinforce a new value system that reconciles the desire for profit and sustainability are manifestations of Shell's double-

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[69] "Profits and Principles – Does There Have to be a Choice," The Shell Report 1998.
[70] Mirvis, op. cit., 66.

loop learning process.[71] Moreover, Shell's effort at honest and open communication with stakeholders through the report was essential to beginning the process of genuine engagement that is critical to double-loop learning.

The learning process did not end here, and double-loop learning continued, as Shell was dissatisfied with the lack of results from the CD programs and wanted to respond to NGO criticisms of the sustainability report. A persistent gap in understanding and expectations remained between Shell and the community, hindering both parties from maximizing the potential benefits associated with stakeholder engagement. In fact, despite changes in policy and practice, complaints about Shell's irresponsibility actually increased and the community's perception of Shell worsened. Because of this dynamic of cynicism and mutual distrust between the community and the company, Shell was pushed toward "deeper and more convincing approach[es] to ethical systems."[72] The corporate changes made in 1997 and 1998 were not enough for the community, but because of Shell's efforts to engage them, the community was able to convey its dissatisfaction while encouraging Shell to continue forward in the learning process.

A major hindrance for organizational learning is establishing meaningful stakeholder engagement. In order for a corporation to successfully complete the second-loop of learning, there must be a consensus across sectors (business, government, community, etc) about issues such as corporate responsibility and sustainable development. Each sector has its own interests and motivations for cooperation and thus

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[71] Argyris and Schon, op. cit.
[72] Gabriel Eweje, ''Multinational Oil Companies' CSR Initiatives in Nigeria," *Thrid World Quarterly* 19, no.3 (1998):457-478.

it is imperative that these groups first coordinate their understandings and value judgments so as to have a basis for genuine communication and cooperation.[73] It is during the second loop of the learning process that the differences between sectors are examined and analyzed, and corporations make structural adjustments so as to reflect changes in priorities based on their new understandings.

Gabriel Eweje discusses the importance of building trust between stakeholders and corporations and cites coordination of expectations as the basis for trust building exercises. Communities and Shell were in disagreement over what the corporation was responsible for, as the community expected CD programs to create long-term sustainability while Shell expected them to be immediate examples of responsible behavior. At the outset of Shell's corporate transformation in the late 1990s, the communities of the Niger Delta had a very negative perception of the company because of a half century legacy of unfulfilled promises and blatant neglectful abuse.[74] Moreover, the first few years of the supposedly new and improved CD programs did not reduce the negative impacts of oil extraction and did not reduce the relative deprivation that characterized life in the Niger Delta. Even several years after the declaration of policy change, Shell and the MOSOP did not understand each other as "little or no meaningful dialogue was occurring with respect to substantive issues and many questions remained with respect to specific commitments made by SPDC."[75] With this persistent gap in values and expectations, genuine dialogue between Shell and community stakeholders

[73] Waddell, op. cit.
[74] Ibid.
[75] David Wheeler, Heike Fabig, and Richard Boele, "Paradoxes and Dilemmas for Stakeholder Responsive Firms in the Extractive Sector: Lessons from the Case of Shell in the Ogoni," *Journal of Business Ethics* 39(2002):297-318, p.308.

(particularly the Ogoni people) cannot take place. The key to effective learning is inter-sectoral collaboration and in order to engage in such collaboration finding common ground of these critical issues is essential so that a non-hostile, trust based relationship can form between the corporation and the community.[76]

Trust comes when both participants have something to risk and the mutual vulnerability helps all parties find practical solutions to mutual problems. The governing elites and Shell have established a trust-based relationship because both parties rely on the other to further their shared economic interests. Building this trust is far more difficult between companies and communities because these former enemies who largely defined themselves in opposition to the other must come together and transform the dynamic of their relationship. Partnerships are an important first step toward removing the unequal and hostile relationship between corporations and community advocates because they place both parties on a more level playing field.[77] The CD programs and formalized reporting helped Shell establish partnerships and take the first steps toward developing long-term collaborative relationships with the community. Partnerships also force corporations to establish a consistent tone for stakeholder responsive dialogue and push the corporation to create regular and uniform methods for engaging and reacting to stakeholder needs.[78]

In 2004, there was yet another change in Shell's strategic approach to community relations and sustainable development, as Shell moved from Community Development to

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[76] Waddell, op. cit.
[77] Eweje, op. cit.
[78] Wheeler, Fabig, and Boele, op. cit.

Sustainable Community Development (SCD). In 2001 Shell was frustrated with the lack of detectable improvement as a result of CD programs despite the program's increasing costs. Shell commissioned an independent audit of the CD program, and the audit highlighted the fact that the there was a significant lack of control and accountability over the implementation of the CD plans, hurting their potential effectiveness. The new Sustainable Community Development strategy was created with the goal of supporting communities in their efforts to obtain and improve their ability to generate socio-economic progress. SCD emphasized community participation, sustainability and transparency and was based on project coordination around themes, limiting ad hoc and disjointed projects. Shell also made more changes to organizational structure, formalizing the Social Accountability Team into its own department and making community engagement a core line of responsibility within Shell.[79] The SCD's increased focus on engagement unifies community relations and community development concerns, changing the relationship dynamic between company and community advocates. Shell is now learning to use the resources and knowledge of community and environmental NGOs to best address the community's needs and problems.

Despite its best efforts, there are very real limitations to what Shell's initiatives alone can do for Nigerian development. Eweje points out that socially responsible initiatives will not be successful if the communities do not think they will bring development and also if the government does not create "an enabling environment and the macroeconomic management is improve and supported by institutional

[79] Ite, op. cit.

governance."[80] This point highlights the fact that activists' narratives tried to ignore, the fact that Shell is not completely and independently in control of what happens in the Niger Delta. Regardless of its access to vast financial resources and close relationship with a corrupt government, Shell cannot force the Nigerian government to be a functioning state apparatus, therefore greatly limiting Shell's actual capacity to facilitate development in Nigeria. Development is not simply philanthropy but requires state support in addition to capital investment. The Nigerian government presents a huge roadblock in development because of rampant corruption, poor governance, and no accountability, all of which incentivizes governing elites to continue the legacy of poor governance instead of pushing for further democratization or maturation of political institutions. There is no doubt that there are still many obstacles inhibiting Shell's progress toward sustainability and the Niger Delta's pursuit of development. However, Shell's active double-loop learning and its recent decision to engage in a social learning and cooperation initiative makes the prospect of future improvements in policies and practices very promising.

Social Learning and Cooperation: The Extractive Industry Transparency Initiative

Social learning and cooperation (SLC) is a new form of inter-sectoral cooperation that engages corporations, governments and NGOs in the pursuit of double and triple-loop learning and sustainable, long-term improvements in corporate practice. The concept of SLC is based on the building trust and understanding by integrating new logics into

[80] Eweje, op. cit., 231.

institutional apparatuses. If a corporation integrates the logic of an NGO and a government into its own decision-making process, it will dramatically alter the core values and the company's strategic goals in a manner favorable to the traditionally neglected NGO-represented interests. Steven Waddell highlights the importance of SLC initiatives in creating a situation in which corporations can learn over time because it's an undeniable reality that organization is extremely complex and it takes time and constant attention to fully develop.[81] Third-loop learning, the ultimate hope for Shell to reach as a result of its experience in Nigeria, is the most difficult level of learning as it requires almost complete destabilization of accepted corporate assumptions and values. This level of learning focuses on the "whys" driving corporate thought, pushing companies to question whether or not their most basic assumptions address the most pertinent issues.[82] SLC initiatives work to guide corporations through the process of reworking decision-making framework so as to bring their values and priorities into alignment with that of other participants.

The Extractive Industry Transparency Initiative (EITI) is an SLC project that can potentially act as this guide for change for Shell, as it brings relevant actors together in a collaborative environment where cooperation is required and learning inevitable. The EITI is a "coalition of governments, companies, civil society groups, investors and international organizations" all working together to reduce corruption and

[81] Waddell, op. cit.

[82] William N. Isaacs, "Taking Flight: Dialogue, Collaborative Thinking and Organizational Learning," *Organizational Dynamics* 22, no. 2 (1993): 24-39.

disproportionate wealth distribution in resource rich countries.[83] The EITI strives to achieve this goal by intervening in the traditionally collusive relationships between corporations and government, forcing both sides to increase their transparency and breaking down the patterns of corrupt interaction. Corporations operating in extractive industries, states rich in oil and metals, and NGOs advocating for community and environmental rights are all invited to take part in the EITI, although the majority of responsibility is put on the state governments. Governments and corporations are asked to conduct independent audits of monies transferred between the actors, using these audits as a means for monitoring the amount of money that goes accounted for in a given fiscal year.[84] This information gives an indication of the level of corruption and provides a measure by which companies and governments can work against in their efforts to break the extremely persistent cycle of corruption.

There are incentives for all parties involved as they all have different things to gain from meaningful participation. For governments, the EITI provides formal guidelines for improving practices and transparency in additional to actual financial and technical resources to support implementation of new auditing policies. Reducing corruption promotes economic and political stability and can greatly reduce petro-violence that plagues the Niger Delta. Companies benefit from participation in the EITI because the EITI facilitates engagement with relevant NGOs as well as reducing political

[83] "EITI Summary," Extractive Industry Transparency Initiative, http://eitransparency.org/eiti/summary (accessed March 1, 2008).

[84] "About Us," Extractive Industry Transparency Initiative, http://eitransparency.org/eiti/about (accessed March 1, 2008).

and reputational risks.[85] The company is also empowered to build up the state apparatus, which is an essential element for the effective implementation of socially responsible and sustainable development policy.[86] Nongovernmental organizations gain access to both corporations and governments through the partnership and have increased access to information about corruption levels. The additional information produced by the EITI's auditing gives NGOs leverage over these two parties as there are increased costs for corruption for both companies and countries in the case of non-compliance. The EITI facilitates interaction between these formerly adversarial groups, helping governments, corporations and NGOs transform their relationships into ones based on knowledge-sharing and cooperation, acting in concert to support each others actions in pursuit of a common goal.

The social learning and cooperation element of the EITI is high, although limited to one area of development, as it tackles the issue of corruption. This restricts the scope of non-governmental organizations that are relevant participants and does not expose the corporation or government to the full range of stakeholders relevant to their operations. Nonetheless, the EITI does address a specific obstacle to development, one that is central to the plight of the many resource rich countries and that is extremely difficult to solve. By focusing on a single problem the EITI focuses its efforts and provides a framework for how companies can engage stakeholders in other challenging areas. The EITI forces participants to come to consensus on the problem of corruption and establishes clear

[85] "EITI Benefits," Extractive Industry Transparency Initiative, http://eitransparency.org/eiti/benefits (accessed March 1, 2008).

[86] Eweje, op. cit.

expectations of what all parties are obligated to do in order to improve the current situation with its 12 Principles.[87] In doing this, the EITI creates the dialogue and norm harmonization necessary to double-loop learning and places corporations on the track to triple-loop learning.

Shell Corporation has been, in recent years, a dedicated supporter of the EITI and has taken on a leadership role within the organization. Shell has assigned a member of senior management, Jeroen van der Veer, Chief Executive of the Royal Dutch/Shell Group and President of Royal Dutch Petroleum Company, to the Extractive Industries Transparency Initiative Conference, as the lead corporate contact.[88] Van der Veer has the formal responsibilities of communicating with the EITI as well as establishing and implementing EITI related policies within the company. This individual is also personally responsible for responding to stakeholder questions and concerns regarding the EITI and releasing a non-financial report that summarizes Shell's latest contributions to the EITI. According to Shell's global website, the company was the first of EITI corporate members to publicly release the revenues paid to the Nigerian government in 2003 and continues to report on revenues paid in its People and Environment Report.[89] In addition, Shell is expanding its participation in the EITI, appointing Mike Wilkinson, the Vice

[87] "The EITI Principles," Extractive Industry Transparency Initiative, http://eitransparency.org/eiti/principles (accessed March 1, 2008).

[88] Jeroen van der Veer, "Why is Transparency Important – Media Center 2005," Shell Official Website, http://www.shell.com/ n/html/iwgen/ /eiti_jvdv_speech_17032005.html&FC2=/media (accessed Feb 20, 2008).

[89] ''Environment and Society – Our Approach," Shell Official Website, http://www.shell.com/home/content/envirosoc- en/approach_to_reporting/our_approach/ our_approach_to_reporting_26042007.html (accessed Feb. 20, 2008).

President of Sustainable Development, as an EITI Board member.[90] The position of Board member greatly increases Shell's access to information and the specialized knowledge from NGOs as well as other companies and governments going through the same learning processes. Shell's participation in the EITI has helped the corporation work through double-loop learning, building consensus around the problem of corruption and its damaging impacts on development, specifically in the case of Nigeria. Moreover, the EITI has pushed Shell to create new positions within the corporation and implement new policies specifically focused on addressing the issue of corruption by following the reporting guidelines set forth by the EITI.

Similarly, the Nigerian government has also made efforts to meet the expectations surrounding corruption through its commitment to the EITI. The EITI focuses mostly on the state government, putting it on the government to opt to participate in the initiative before the companies operating in that state are expected to comply. In 2003, under President Olusegun Obasanjo, Nigeria announced its decision to support the EITI and established the Nigerian Extractive Industries Transparency Initiative (NEITI) in 2004. Legislation called the NEITI Act proposed the legally requiring conformity with EITI reporting standards and was just recently passed in 2007, making Nigeria "the first EITI-implementing country with a statutory backing for implementing EITI."[91]

Audits have begun in Nigeria and the government counterparts to Shell audits of 2005 should be completed and published in the early months of 2008. By engaging in the

[90] "EITI Board," Extractive Industry Transparency Initiative, http://eitransparency.org/about/board (accessed March 1, 2008).

[91] "Nigeria," Extractive Industry Transparency Initiative, http://eitransparency.org/Nigeria (accessed March 1, 2008).

EITI, the Nigerian state has started a process of internal change, working to fight the corruption that has been characteristic of government since its creation. This demonstrates the importance of inter-sectoral collaboration in development issues because Shell cannot end corruption alone, but needs to cooperation of government and NGOs to make change a reality. The EITI as a SLC initiative forces participants to take an active role in genuine stakeholder engagement, incentivizing participants to alter their values and actions in pursuit of a common goal.

Triple-loop learning cannot be reached without a thorough involvement in double-loop learning which the EITI helps companies achieve. Shell has become deeply entrenched in this SLC initiative and has worked, and continues to work through the second loop learning. It is not entirely clear if Shell has yet reached triple-loop learning in which the company continually questions its new priorities, venturing to ask if sustainability should be a primary corporate goal or if there is another more effective way to respond to corporate and stakeholder needs.[92] The social learning and cooperation that takes place in the EITI creates a situation in which triple-loop learning is possible. By bringing all relevant parties together and creating relationships based on trust and value alignment, SLC initiatives are essential for creating the space and providing the resources necessary for companies to engage in third-loop learning. At this point, corporations are best positioned to make long-term improvements in practice because there is an established external framework that provides constant guidance and support throughout the learning process. Organizational change does not occur over night, making patience

[92] Waddell, op. cit.

and persistence essential elements in the corporate learning process. SLC initiatives like the EITI cater to the special needs of corporate learning, making them critical for the transformation in corporate logic that results in constantly improving practices and sustained responsibility.

Conclusion

Shell's operations in Nigeria have created a situation characterized by political, economic and social volatility, all of which reinforce the plight of those communities living in the direct vicinity of Shell operations. The communities of the Niger Delta were most devastated by Shell's legacy, enduring environmental degradation, government repression, extreme lack of development without compensation. When the situation exploded in the mid 1990s, NGOs and community advocates were able to frame Shell Corporation as responsible for the hardships the Niger Delta, specifically the Ogoni people, faced and also create the simplified narrative that Shell also had the capacity to solve the region's problems as well. In doing so, lobbyists created a crisis situation for Shell, threatening profits by degrading the corporation's reputation so much that Shell experienced protests and boycotts throughout Europe. Attempts to ignore criticisms failed and Shell was eventually forced to respond to the immense public pressure, demonstrating the importance of a crisis to igniting the corporate learning process.

Although slow to begin, Shell's revival of Community Assistance programs marked the beginning of Shell's learning as it demonstrated Shell's reluctant recognition of the fact that there was a problem that needed to be addressed. Unrelenting public pressure pushed Shell to continue forward in the learning process, engaging in double-loop learning with the Community Development and later Sustainable Community Development strategies as well as significant policy revisions and structural reorganization within the corporation. Shell's decision to participate in the Extractive Industry Transparency Initiative was an extremely important move as it enabled Shell to finally establish meaningful dialogue with stakeholders on the issue of corruption. This meant that Shell was able to bridge the gap between community and company that had been hindering the success of CD and SCD programs. These two groups also establish common values related to corruption and clearly outlined expectations for either party, both steps that Shell was struggling with in its independent stakeholder engagement. The EITI also helped Shell push the Nigerian government to also take an active part in sustainable development by raising the expectations for government action. By compelling the government to work against corruption, the EITI helped Shell overcome one of its biggest obstacles in responsibility; a non-functioning state.

In order for development to become a reality in the Niger Delta and sustainable development to ever succeed in Nigeria, inter-sectoral cooperation is essential. The campaign launched by activists was extremely effective in part because of Shell's unmistakable brand name, its exuberant profits, and the size of Shell's investment in Nigeria which made abandoning the region impossible. The activists also benefited from the fact that there were multiple dramatic events that all occurred within months of each other and fed a media frenzy that captured the enthusiasm of consumers in industrialized nations. Because of the NGO's successful framing and incriminating of Shell, the corporation was compelled to improve its practices beyond minimal policy changes.

Continued monitoring, criticism, and a lack of success with community development efforts pushed Shell further into the learning process and into a SLC initiative. This marks an important difference between the case of Shell and the preceding case studies because it is the SLC initiative that makes the prospect of continued improvement and the potential for long-term change very promising. By engaging in formalized inter-sectoral cooperation Shell has empowered itself to alter the environment in which it operates, helping improve the efficacy of the Nigerian government as well as reducing the skepticism with which communities view Shell's CSR initiatives. Moreover, within the context of a collaborative framework, Shell can receive the constant support and guidance necessary to facilitate further double and triple loop learning. SLC initiatives are critical to sustained improvements in corporate practices because constant inter-sectoral cooperation is essential for corporate learning and long-term change.

Chapter 7
Conclusion

The damage already done to the communities of El Cerrejón, Ok Tedi, and the Niger Delta cannot be reversed, and their people can never be adequately compensated for their losses of land, health, and ways of life. The Wayuu cannot be given their villages back, as they have been permanently converted into an open face coal mine, an ever-growing scar on the earth. The Fly River cannot be rid of the tailings that have settled on its riverbeds and dramatically damaged the surrounding ecosystems. And nothing can bring back the land and lives lost by Nigerians in the conflicts with Shell and the government in the Niger Delta. These instances of irreparable damage caused by multinational corporations in less developed countries are merely a taste of the problems occurring around the world, as similar extractive operations negatively impact the communities and environments surrounding their operations. Although this realization that what has happened cannot be fixed is extremely disheartening, the initial pessimistic reaction must be tempered by the prospect for change.

Mistakes are inevitable and are the poor practices of the past cannot be reversed. What really matters at this point is whether or not learning can come from these mistakes. The capacity for corporations to learn from the consequences of their traditional means and methods for conducting business is essential to maintaining any sort of optimism. The object of this work was to examine influences over corporate behavior and develop a better understanding of what forces and conditions are necessary to initiate and perpetuate the corporate learning process. The first case study highlights the internal obstacles to change as NGOs were unable to engage the international public in a campaign against the Exxon Corporation over its practices in Colombia. The attempts to pressure the company went through a defunct Colombian court system and beyond this largely inconsequential ruling against the company, there has been no pressure on the company to change its way. The situation, exemplified by Exxon's abrupt divestment from El Cerrejón, highlights how the company has retained a narrow stance on corporate responsibility, seeing its responsibility as extending only so far as Colombian legal restrictions demand. As a result, there was no impetus to spark learning within the corporation, and this supports the argument that corporations are not likely to improve practices without a crisis situation. In this case, the limitations of NGO influence are apparent as the NGO failed to capture public attention and support, and therefore, could not initiate the corporate learning process. This case, as the others, reaffirms the idea that there must be some external catalyst to initiate the corporate learning process.

For BHP in Papua New Guinea, the creation of a crisis situation compels the corporation to alter its practices and engage in single-loop learning. In this case, the NGO advocacy was essential to creating public pressure, solidified by a lawsuit in Australian courts, to push the corporation into a situation of desperation. Facing historic loses and falling public approval, BHP opted to alter its leadership and engage in single-loop learning so as to find a solution to the pressing problems associated with Ok Tedi. BHP engaged the NGOs and community advocates in addressing the problem, however, this engagement was largely limited to negotiations over compensation packages and how the company could distance itself from this public relations problem. The corporation was not willing to bring the NGOs into company decision-making as partners and instead maintained a largely adversarial relationship, preventing meaningful engagement and deeper learning. The crisis situation was critical in forcing the company to reevaluate traditional corporate practices as NGOs established the fact that BHP's practices were far below the accepted norms for corporate behavior. In doing so, the NGO campaign instigated corporate learning and change. However, because the pressure created could not be sustained, the corporation was able to sell its way out of connection with Ok Tedi and avoid engagement in a social learning and cooperation initiative that would force further change.

The third case study chronicling Shell's conflict with the Ogoni people in the Niger Delta again reinforces the importance of a crisis as a catalyst for change, but also demonstrates how NGOs can maximize their influence over corporations through SLC initiatives. Although the problems that plague the Niger Delta are not ones that can be easily fixed or glossed over with single-loop devised development plans and improved public relations rhetoric, there are some promising changes within the Shell corporation that suggest there is hope for the region. Shell's environmental problems and human rights abuses in Nigeria were manifested in dramatic fashion with the Brent Spar incident as well as the execution of activist Ken Saro-Wiwa. NGOs were able to launch an extremely successful campaign, inciting the support of European and American consumers and pushing the company to reevaluate its practices. Shell's lack of success with its first single-loop solutions and continued presence in the Niger Delta enabled NGOs to maintain pressure on the corporation, pushing Shell deeper into the learning process. As a means to cope with this pressure, Shell's membership on the Extractive Industry Transparency Initiative, an SLC initiative, was monumental in continuing Shell's corporate change. The NGOs were effectively able to maintain influence over Shell's learning process through the SLC initiative, and as a result the relationship dynamic between the two actors also changed from one of hostility to one of partnership. The SLC initiative was critical to the changing dynamic, as it facilitated meaningful engagement between the two and also included the Nigerian government in the development talks. By making the corporation and host government more vulnerable to NGO pressure and receptive to the concerns and advice the NGOs provide, the SLC initiative has enabled Shell to make more changes in corporate structure, philosophy, and practice.

It is the case of Shell in Nigeria and the immense amount of change that has occurred within the company over the past decade that gives reason for optimism. Granted there is little change in the actual situation on the ground, as the problems that gave rise to the original crises have really not been alleviated. However, what is promising is that there have been changes made in the fundamental assumptions governing business practice. What the successful NGO campaigns have shown is that the international norms of business practice have changed, and companies are expected to do more than simply maximize profits. The human and environmental costs of business are now a very real part of the calculations driving business decision-making because of NGOs campaigns that frame corporations as being a main cause of problems plaguing least developed countries. Acknowledgment of the Resource Curse and Rentier State thesis have tied corporate practice to underdevelopment and have reinforced NGO efforts to hold companies accountable for their practices abroad. However, forcing companies actually to respond to their newly established expanded responsibility still presents a challenge as corporations are inherently resistant to change and learning.

This study, although far from conclusive, presents support for the fact that crises are essential catalysts for corporate change. More research needs to be done on whether or not crises are the only means for starting the corporate learning process, but given the cases studied, it seems to be an essential part of the process. All three cases strongly support the causal relationship that connects a crisis situation to the instigation of corporate learning. Only in situations where the company felt pressure form an external force and could not ignore the pressure without significant risks to the company's wellbeing, did the learning process being. Moreover, it was only in the case of Shell where the crisis situation was maintained because the investment could not be dropped that learning moved past the first-loop stage.

This seems to suggest that it is to a certain extent necessary for affected communities that fall victim to the investment of extractive multinationals to wait until there is a crisis for any alleviation to their suffering. It is possible that there must be more dramatic spills, human executions, and lives destroyed before action can take place and any change will occur. However, it cannot be denied that international norms related to business are not static and what is considered acceptable or humane behavior abroad is changing. As NGOs raise norms of corporate practice to higher levels, communities could potentially create crisis situations sooner as the consumer population expects more of their companies. Instead of an execution, perhaps harassment of a community activist could create the sensationalist uproar against a corporation, having the same crisis effect without the full extent of the negative consequences. As NGOs alter international norms, they lower the threshold necessary to create a crisis situation and also reduce the chance that a crisis will occur. Although this still means that a crisis is necessary, the human and environmental costs and consequences could be gradually lowered. By raising the lowest common denominator of corporate practice, norm changing strives to eliminate crises all together by removing the circumstances that give rise to the overwhelming environmental and social disasters. In addition to norm changing, the fact that the extractive industry is becoming increasingly consolidated, exemplified by BHP's merger with Billiton in 2000, means that fewer crises could be necessary to change corporate practices around the world. The Niger Delta was one element of Shell's very extensive investment portfolio, and problems with this venture sparked changes throughout the corporation, impacting Shell's practices everywhere else.

By bringing Shell Corporation into an SLC initiative, all of Shell's operations would benefit from the double and potentially triple-loop learning that takes place there. An SLC initiative is essential for supporting the long-term process of corporate learning, providing guidance and constant pressure for actual progress. Inter-sectoral collaboration, in the form of social learning gives reason for optimism because these initiatives focus on the biggest obstacles to engagement. By engaging in social learning and cooperation, relationships between companies, governments and NGOs are dramatically changed, as NGOs have more access to governments and corporations, working to break down the previously collusive dynamic between them. Moreover, the NGO's new access helps break down the hostilities between the NGO and other actors, making all parties more receptive to information sharing and collaboration. This enables the parties to come to consensus on those most decisive issues such as the corporate role in a region's development. Without taking the time to develop common ground and common understandings of the problems at hand, genuine engagement and cooperation cannot take place, making inter-sectoral cooperation which produces this consensus critical to actual progress in corporate practice. Inter-sectoral cooperation brings all relevant parties onto a level playing field and pushes them to work together to challenge the Resource Curse and the Rentier State thesis. In doing so, SLC initiatives demonstrate themselves as critical to improving corporate practice in the long-term.

The situation today is a daunting one with a world full of suffering people, irresponsible companies, and failing states. The painful consequences of globalization and the never-ending search for exploitable natural resources create situations like the ones discussed in the case studies, painting a discouraging picture of the world. However, there is a glimmer of hope as the dynamics behind corporate change become better understood and NGOs continue to raise the popular expectations for corporate responsibility. There is the lingering question of how to instigate learning without a crisis, in addition to what other methods that support long-term double and triple-loop learning may be more effective than the SLC format. It will take time to fully understand to what extent social learning and cooperation initiatives can push corporations to change, but this analysis provides a modest start to that inquiry and supports SLC initiatives as a promising innovation in inter-sectoral cooperation.

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