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Corporate Social Responsibility and Societal Governance: Lessons from Transparency in the Oil and Gas Sector

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ABSTRACT. This article evaluates the potential of the current Corporate Social Responsibility (CSR) agenda for addressing issues related to societal governance. The investigation focuses on the experience of the oil and gas sector, which has been among the leading industry sectors in championing CSR. In particular, the article analyses the issue of revenue transparency, which has been the principal governance challenge addressed by multinational oil and gas companies. The article suggests that (1) tackling governance challenges is crucial to addressing the impact of corporate activities; (2) current CSR and policy initiatives are entirely insufficient in addressing governance challenges and (3) corporate activities may be contributing to governance failures.

KEY WORDS: Corporate Social Responsibility (CSR), EITI, gas, governance, oil, multinational companies, transparency

This article evaluates the potential of the current Corporate Social Responsibility (CSR) agenda for addressing issues related to societal governance, which is defined here widely as 'the various ways through which social life is coordinated' (Heywood, 2002, p. 6). It suggests that (1) tackling governance challenges is crucial to addressing the impact of corporate activities; (2) current CSR and policy initiatives are entirely insufficient in addressing governance challenges and (3) corporate activities may be contributing to governance failures.

A number of authors have recently pointed to the importance of linking CSR to wider societal governance (Blowfield and Frynas, 2005; Frynas, 2008; Tallontire, 2007). A number of recent empirical studies further point to the importance of addressing governance in CSR discussions. In their research on BP in Azerbaijan, Gulbrandsen and Moe (2007) suggest that a shift of focus from micro-level CSR activities towards macro-level governance issues is crucial in addressing the most important impacts of the oil and gas sector. Similarly, in her work on CSR initiatives in the coffee sector, MacDonald (2007, p. 793) found that the focus of CSR initiatives on the industry's supply chains alone 'has limited their ability to advance those dimensions of worker and producer wellbeing that are shaped by a range of state and non-state actors' outside the supply chains. This emerging literature suggests that, on the one hand, even the most enlightened and far-reaching CSR initiatives may face systemic constraints arising from the existing systems of societal governance and, on the other hand, the CSR movement must address governance challenges in order to remain relevant for addressing the crucial issues relevant to stakeholders.

The investigation in this article focuses on the experience of the oil and gas sector, which has been among the leading industry sectors in championing CSR. In particular, we analyse the issue of revenue transparency, which has been the principal governance challenge addressed by multinational oil and gas companies. The investigation is based on interviews with oil company staff and insiders, as well as the analysis of 20 social and environmental reports of selected oil and gas companies.

The governance challenge in resource-rich countries

While extractive industries such as oil and gas generate relatively few jobs and local economic linkages

compared with manufacturing or services industries, they have been blamed for distorting national economies and undermining good governance. Many oil-producing countries have suffered from the phenomenon known as the 'resource curse'. Despite being well endowed with natural resources, oil-producing countries have experienced economic underdevelopment, political mismanagement and military conflict, a finding supported by many quantitative and qualitative studies and accepted by World Bank and IMF economists (Gelb et al., 1988; Ross, 1999; Sachs and Warner, 1999, 2001).

There are three principal negative societal effects of natural resource exports, which has been called the 'resource curse':

- *Impact on the economy*. Large foreign exchange inflows generated by extractive industries exports lead to the appreciation of a country's currency exchange rate, which makes it more difficult to export agricultural and manufacturing goods – a phenomenon known as Dutch Disease. Extractive industries also draw capital, labour and entrepreneurial activity away from non-resource sectors such as manufacturing and agriculture, thereby stifling the development of those sectors. Not surprisingly, it has been shown that resource-rich countries have had lower economic growth rates than countries without these resources over the long-term (Corden, 1984; Sachs and Warner, 1999, 2001).
- *Impact on governance*. Extractive industries exports may undermine good governance and political accountability to society. Given their dependence on extractive industries revenue, governments in resource-rich countries may neglect non-resource taxation and may have fewer incentives to nurture other economic sectors and improve the quality of institutions. It has been shown that resource-rich countries have higher levels of corruption and lower levels of education than non-resource rich countries (Gylfason, 2001; Leite and Weidmann, 1999).
- *Impact on conflict*. The extraction of natural resources requires little human co-operation and tends to be less affected by violent conflicts than manufacturing or service industries, because multinational companies can build the necessary infrastructure including access roads, they are able to provide their own security and – being enclave economies – they rely little on local business linkages. Thus, governments in resource-rich countries have less incentive in ensuring economic and political stability. In addition, the prospect of gaining control over natural resource revenues may encourage the formation of rebel groups and separatist movements. It has been shown that a country's dependence on natural resources dramatically increases the threat of armed conflict (Collier and Hoeffler, 1998, 2000; Elbadawi and Sambanis, 2000; Keen, 1998).

As one expert summarised the fate of oil-exporting countries, 'their reality is sobering: countries that depend on oil for their livelihood are among the most economically troubled, the most authoritarian, and the most conflict-ridden in the world' (Karl, 2005, p. 21).

Both developing countries such as Nigeria and Venezuela and developed countries such as the United Kingdom and the Netherlands have suffered from the resource curse; indeed, the word 'Dutch disease' (relating to the appreciation of a country's currency exchange rates) originally referred to the economic problems caused by natural gas exports in the Netherlands. The potential effects of the resource curse were greatest in countries with high dependence on oil and gas revenues, such as Algeria and Nigeria (see Table I).

In most developed economies, the effects of the resource curse were minimised thanks to the diversification of the economy and prudent government policy. Furthermore, a small number of resource-rich developing countries – in particular, Botswana, Chile and Malaysia – have not only been able to beat the 'resource curse' but have achieved high economic growth (Hojman, 2002; Sarraf and Jiwanji, 2001; Usui, 1996). The biggest difference between successful and unsuccessful resource-rich countries was the quality of governance, which ultimately can be attributed to political, social and historical processes behind the formation of states (Rosser, 2006; Stevens, 2005). In successful resource-rich countries,

TABLE I

Countries with highest dependence on oil and gas exports (% of total exports, 5-year average), 2000–2004

Country	% Of total exports	Product description
Algeria	97.8	Oil and gas
Nigeria	97.8	Oil
Libya	96.9	Oil
Yemen	93.3	Oil and gas
Kuwait	92.9	Oil
Angola	92.2	Oil
Qatar	89.1	Oil and petrochemicals
Saudi Arabia	88.9	Oil
Brunei	88.3	Oil
Azerbaijan	86.6	Oil
Iran	86.3	Oil and gas
Venezuela	83.4	Oil
Turkmenistan	81.0	Gas
Oman	80.6	Oil
Gabon	79.5	Oil
Sudan	74.2	Oil
Syria	72.8	Oil
Bahrain	70.5	Oil
Trinidad and Tobago	61.3	Oil and gas
Kazakhstan	56.1	Oil and gas

Source: United Nations Conference on Trade and Development, 2007), p. 87.

revenues from extractive industries exports were utilised to stimulate economic growth elsewhere in the economy, while the economy was insulated from 'resource curse' effects through government policies such as the establishment of a 'revenue stabilization' or a 'savings fund' (Stevens, 2005). The differences between successful and less successful countries in terms of the local economic impact of the oil and gas sector are enormous. In Brazil and Malaysia, about 70% of the goods and services purchased by oil companies is sourced locally; in Indonesia and Nigeria, the share of local content is only 25 and 5%, respectively (United Nations Conference on Trade and Development, 2007, p. 141).

Given that skilful government policies and appropriate societal institutions can reduce or avoid the effects of the resource curse, the key challenge for resource-rich countries is how to improve macro-economic and macro-political conditions. In other words, the challenge is how to improve wider societal governance. Indeed, a recent United Nations study on extractive industries pointed to the 'urgent need' of addressing societal governance:

> Without a well-developed governance framework, there is an increased risk that benefits from extraction will not materialize, that fiscal systems will lead to uneven sharing of revenues, that lack of a coherent and concerted development strategy will lead to their misuse, that local populations will be left disappointed, and that environmental damage, health risk and conflicts will occur. (United Nations Conference on Trade and Development, 2007, p. 96)

Tackling the governance challenge

Oil companies have, until recently, rejected the notion that they should actively address macro-level governance issues. Governance in a society is ultimately related to the role of the government and companies have been reluctant to become drawn into the sphere of politics. As one example, a senior USAID official recounted in a conversation with the author how American corporations have been keen on getting involved in various development initiatives in education and health, but 'for instance, we couldn't get companies involved in party-building activities in Zambia'. In the words of one interviewed oil company manager, 'we cannot be government'.

While the notion of non-involvement in government affairs has not radically changed, a number of multinational oil companies including Shell, BP and Statoil now recognise that they can play a positive role in strengthening governance. BP in Azerbaijan is arguably by far the most wide-ranging attempt by a single company to address governance shortcomings. The company has publicly stated that it is prepared to 'engage in policymaking processes and offer assistance, as appropriate, on the development and implementation of policy agendas, which include for consideration addressing poverty alleviation, revenue management, and domestic energy' (quoted in Gulbrandsen and Moe, 2007, p. 819). BP has cooperated with the government of Azerbaijan to facilitate expert advice on the management of the

country's State Oil Fund and oil revenues. Furthermore, the company operates a Regional Development Initiative to initiate large-scale and cross-regional development interventions in Georgia, Turkey and Azerbaijan, with the European Bank for Reconstruction and Development and the World Bank as partners. Governance is to be improved through 'civil society capacity building, strengthening the rule of law, and proffering expert advice and assistance' (Gulbrandsen and Moe, 2007). The initiatives by BP in Azerbaijan are exceptional in a number of ways, but a number of multinational companies also profess to contribute to better governance.

The author has analysed recent social and environmental reports by 20 oil and gas companies to ascertain to what extent they address wider governance issues. The analysis covered the reports of 10 Western multinational companies (Shell, BP, Chevron, Exxon, Statoil, Norsk Hydro, Total, ENI, Repsol and OMV) and 10 multinational companies from emerging markets (China National Offshore Oil Corporation/CNOOC, China Petroleum & Chemical Corporation/Sinopec, Lukoil, Gazprom, MOL, Petrobras, Petronas, PKN Orlen, PTT and Sasol).

All of the 20 oil and gas companies address a range of different social and environmental responsibilities. As we can see from Table II, every single company supports some sort of 'community development' or 'social investment'. By implication, every single company accepts social responsibilities towards the communities in which it operates.

In contrast, the commitment of the 20 companies towards addressing governance issues is very limited. While 11 companies explicitly state that they address wider governance issues, the scope of governance initiatives is extremely narrow. All of

TABLE II

Community investments by selected oil companies in 2006

Company	Country	2006 Spending (US$ million)	Community investment by focus area			
			Community health	Community education	Entrepreneurs/ SMEs	Local sourcing
BP	UK	107	+	+	+	+
Shell	UK	140	+	+	+	+
Chevron	USA	91	+	+	+	+
Exxon	USA	138	+	+	+	+
Statoil	Norway	10	+	+	+	+
Norsk Hydro[a]	Norway	45		+	+	
Total[a]	France	156	+	+	+	+
ENI[a]	Italy	98	+	+	+	+
Repsol[a]	Spain	34	+	+	+	
OMV	Austria	n/a	+	+	+	
CNOOC	China	n/a		+	+	
Sinopec	China	n/a	+	+		
Lukoil	Russia	62	+	+		
Gazprom	Russia	n/a	+	+		
MOL	Hungary	n/a	+	+		
Petrobras[a]	Brazil	255	+	+	+	+
Petronas	Malaysia	n/a	+	+	+	
PKN Orlen	Poland	n/a	+	+		
PTT	Thailand	n/a	+	+	+	
Sasol	South Africa	n/a	+	+	+	+

[a]2006 spending figure converted from local currency into US dollars, using currency exchange rates from the Economist magazine for 31 December 2006.

TABLE III

Support for revenue transparency by selected oil companies in 2006

Company	Country	Support for revenue transparency	Formal EITI supporter
BP	UK	+	+
Shell	UK	+	+
Chevron	USA	+	+
Exxon	USA	+	+
Statoil	Norway	+	+
Norsk Hydro	Norway	+	+
Total	France	+	+
ENI	Italy	+	+
Repsol	Spain	+	+
OMV	Austria		
CNOOC	China		
Sinopec	China		
Lukoil	Russia		
Gazprom	Russia		
MOL	Hungary		
Petrobras	Brazil	+	+
Petronas	Malaysia		
PKN Orlen	Poland		
PTT	Thailand		
Sasol	South Africa	+	

the 11 companies have largely focused on a single governance issue: revenue transparency, which refers to openness and access to information with regards to company payments and government revenues from oil, gas and mining. Nine of these companies are based in developed countries. Only two out of 11 companies – Brazil's Petrobras and South Africa's Sasol – are based in emerging markets, which reflects the relative sophistication of these two companies in addressing CSR issues (see Table III).

Revenue transparency is now regarded as the priority initiative to address governance in resource-rich countries by policy makers, the major oil companies and non-government organisations (NGOs). It is assumed that transparency can contribute towards minimising the effects of the resource curse through beneficial political, economic and social effects (see next section). The main expected benefit of transparency is the reduction of corruption. Indeed, one expert on transparency stated: 'The word "transparency" is often used as a synonym for the absence of corruption. Transparency is also thought of as a solution or vaccine against corruption' (Henriques, 2007, p. 137).

BP was a pioneering oil company in terms of revenue transparency. In 2001, BP announced that it would publish the following information annually on their operations in Angola: total net production by oil block; aggregate payments by the company to the state oil corporation Sonangol in respect of production-sharing contracts; and total taxes and levies paid by BP to the Angolan government as a result of their operations. In the same year, BP disclosed some payments that the company made to the government of Azerbaijan. In a further unprecedented move, the company published various documents – including production-sharing agreements signed with the government of Azerbaijan – on a website in 2002. BP's actions on transparency were hailed as a major step by some NGOs, most notably Global Witness, a London-based NGO which has campaigned for the disclosure of such information by oil companies.

However, none of the other major oil companies followed BP's lead in offering to publish their payments to governments. According to interviews, the Angolan government was highly displeased by BP's unilateral decision to publish payments to the government and Angolan government officials even threatened to expel BP from the country as a consequence. BP's experience in Angola demonstrated the collective action problem with regards to governance initiatives: most companies would benefit from improved governance in host countries, but companies may be reluctant to pursue governance initiatives because they may potentially suffer individually as a result.

BP's lesson in Angola partly informed the birth of the Extractive Industry's Transparency Initiative (EITI). The EITI was launched at the initiative of the UK government in 2003 to improve the transparency of revenues paid by oil, gas and mining companies to host governments, which in turn would limit corruption related to such revenues. The EITI describes itself as 'a coalition of governments, companies, civil society groups, investors and international organizations'. Each EITI implementing country commits itself to six EITI 'criteria', which include independent audits of all extractive sector payments received by the government and a

work plan for the government, 'including measurable targets, a timetable for implementation and an assessment of potential capacity constraints'. As of July 2008, the EITI was formally supported by 16 oil and gas companies (Extractive Industry's Transparency Initiative (EITI), 2008).

A key strength of the initiative was that it would involve all companies in a member country, which avoids collective action problems that BP faced in Angola. Another strength was the requirement to involve civil society and independent auditors, which helps to properly oversee the implementation of the EITI in a given country.

The establishment of a 'revenue savings fund' is one example of how revenue transparency can help towards reducing 'resource curse' effects. For instance, the creation of the State Oil Fund of the Azerbaijan Republic (SOFAZ) has to some extent protected the local economy in Azerbaijan from extreme currency appreciation and oil price fluctuations, by depositing a part of the country's oil revenues in an overseas account. SOFAZ became (in the words of the Economist Intelligence Unit) 'the most transparent government body in Azerbaijan' (Economist Intelligence Unit, 2006, p. 26). The establishment of SOFAZ was conducive to EITI membership and the EITI helps to ensure the publication of annual data on Azerbaijani revenue flows. Beating the 'resource curse' requires more than just a transparent revenue savings fund, but Azerbaijan achieved more in this respect than the majority of other resource-rich countries in the past.

The most far-reaching external policy initiative to avoid the pitfalls of the 'resource curse' in an oil-producing country was the Revenue Management Program in Chad. In 1998, the World Bank and the government of Chad agreed on a program designed to ensure that future oil revenues would be used to the benefit of wider society. 10% of Chad's direct oil revenues (dividends and royalties – as opposed to petroleum taxes) were to be placed in a London-based Future Generations Fund. Of the remainder, 80% of royalties and 85% of dividends were to be devoted to priority sectors including education, health and social services, rural development and infrastructure. Oil companies were not directly involved. The Chadian experiment yielded some positive societal benefits and it helped to insulate the country from the 'resource curse' for several years (Gould and Winters, 2007; Kojucharov, 2007).

Potential and limitations of transparency

Transparency can contribute towards minimising the effects of the resource curse, but transparency initiatives are relatively young and only few academic studies have been carried out until now on the most appropriate use of transparency initiatives and the actual impact of transparency. However, extensive quantitative studies that were carried out clearly demonstrate positive development effects of transparency (Alt and Lassen, 2006a, b; Gelos and Wei, 2005; Shi and Svensson, 2002).

Benefits of transparency initiatives

There is strong evidence that transparency has positive political, economic and social effects:

- *Political effects*. Transparency improves informational flows between the rulers and the ruled. It ensures that financial flows are reported to a wide audience in a publicly accessible, comprehensive and easily understandable manner. Studies show that transparency in revenue and expenditure flows reduces the scope for corruption and generating political budget cycles, that means, politicians have less scope to overspend budgets at certain times (e.g. during election years) (Alt and Lassen, 2006a, b). In turn, informational flows improve the management of these revenues such as through the creation of effective 'revenue savings funds' mentioned earlier. The political leaders also benefit in that their policies and statements gain higher credibility, the reputation and legitimacy of the government and public institutions are strengthened, and the relationships with international organisations and aid donors are improved.
- *Economic effects*. Transparency improves a country's credibility among foreign investors and the international banking community. There is evidence that high-transparency

countries enjoy lower costs of borrowing in sovereign debt markets, and investment funds make larger investments in high-transparency countries (Gelos and Wei, 2005; Glennerster and Shin, 2003). Adoption of transparency initiatives can therefore contribute to an improved investment climate by providing a clear signal to investors and the international financial institutions that the government is committed to improved accountability and good governance.

- *Social effects*. The positive political and economic effects of transparency can have many indirect social effects. By improving the quality of government policy, lowering the costs of government investment and attracting foreign capital, transparency indirectly results in various positive impacts including contributing to poverty reduction. Furthermore, a general climate of transparency empowers civil society groups to monitor budget decisions at the micro-level. For instance, transparency can improve the effectiveness of health services and reduces health care costs. According to Transparency International (2006), central government transparency can encourage the development of formal transparency in the health sector such as independent audits, release of information about tender processes, dissemination of information about costs of procurement and transparency in overseas development aid. Central government transparency has therefore role-model effects for other parts of economic and public life (Shultz, 2004).

Therefore, there is abundant evidence that transparency potentially has many benefits for countries that adopt it. Indeed, high-transparency countries consistently perform better than low-transparency countries on different measures. One key positive impact, which has been studied in some detail, is lower debt accumulation. Statistical analysis by Alt and Lassen (2006a, b) clearly shows that high-transparency countries have consistently lower government budget deficits and consequently lower debt levels than low-transparency countries. Lower debt accumulation is crucial to poverty reduction, given that country indebtedness is in itself a cause of poverty. 12 out of the world's 25 most resource-rich countries and six of the world's most oil-rich countries were classified by the World Bank as Highly Indebted Poor Countries, displaying some of the worst Human Development Indicators (World Bank, 2003, p. 12).

However, most studies on transparency suggest that a number of conditions must be fulfilled in order to maximise the positive impact of transparency. Based on the literature, at least three conditions are necessary: (1) free media; (2) involvement of civil society and (3) timing of introducing transparency. In other words, the success of the EITI depends on these three conditions, which we shall discuss in the following section.

Conditions for facilitating transparency

Based on previous research, the success of transparency initiatives in the oil and gas sector depends on the following conditions:

- *Media*. Evidence suggests that independent media is an important tool for increasing accountability and the beneficial effects of transparency (Besley and Prat, 2006). Better flows of information about revenues and spending allow the public and interest groups to observe the causes and effects of fiscal policy and thereby improve political accountability. There is anecdotal evidence, for example, that the publication of the federation account in Nigeria provided journalists with a powerful tool to scrutinise the expenditure of local government authorities and helped to increase accountability. The success of EITI depends on reporting revenue flows to a wide audience, and the media therefore assist the EITI process.
- *Civil society*. It has been found that the involvement of private associations and non-profit organisations is crucial for the success of any anti-corruption and transparency initiatives and can be even more important than the role of the media (Rose-Ackermann, 1999, pp. 167–171). Watchdog groups such as Transparency International or Kazakhstan Revenue Watch have a crucial role to play in

monitoring and disseminating information, ensuring that larger development goals are pursued, influencing policy and training local civil society groups to understand the relevant issues. Civil society engagement can have tangible development outcomes. It has been reported that the budget allocation for public services (including anti-poverty programs) in Indonesia's capital Jakarta increased from 30 to 68% in the period 2000–2004, as a direct result of civil society budget advocacy initiatives (Shultz, 2004).

- *Timing*. Experience suggests that once extractive export revenues start flowing, 'governments find it difficult to avoid a diversion from development projects to spending for political advantage' (Bell et al., 2004). Once the government begins to receive oil and gas revenues, third parties such as the World Bank and EITI lose much of their bargaining power in persuading host governments to adopt principles of good governance and transparency (Frynas and Paulo, 2007; Gould and Winters, 2007). Therefore, the potential development benefits of transparency can be maximised, if transparency measures are adopted *before* the start of extractive operations. In Azerbaijan and in Chad mentioned earlier, the revenue management initiatives were established before the start of the actual oil boom at a time when external actors had greater bargaining power.

Therefore, transparency initiatives are unlikely to be successful in autocratic regimes, which do not allow a free press and a free civil society. As one author summarised, 'the success stories in resource revenue management have occurred where there is visionary political leadership that understands the need for explicit policies for economic management and accountability and where civil society and the media have the capacity to press for good governance of resource wealth' (Shankleman, 2006).

One of the six EITI 'Criteria' stipulates that civil society organisations are involved from the outset. However, EITI cannot change the fact that most EITI implementing countries such as Azerbaijan or Equatorial Guinea simply do not have free media or a free civil society.

Table IV uses the 2007 'Political and Civil Freedom' and 'Media Freedom' rankings by Freedom House – an international organisation that compiles 'freedom' rankings every year. The Freedom House rankings use long checklists for assessing the presence of 'freedom', taking into account many different factors ranging from the electoral process, the rule of law, property rights to media ownership. While no ranking of this kind can ever be entirely objective and value-free, Table IV provides a simple comparison, which suggests that most oil-producing countries lack the necessary pre-conditions for the success of transparency.

Table IV lists the 30 largest oil-producing nations in the world. Out of 24 oil-producing countries in the developing world, only five countries – Mexico, Brazil, Indonesia, India and Argentina – have 'political and civil freedom', while a number of other countries are classified as 'partly free'. Out of these 24 countries, not a single country has a genuinely 'free press'. Out of seven EITI participants listed in Table IV, not a single country has a genuinely 'free civil society' or 'free press', while a few countries such as Nigeria are classified as 'partly free'.

The six largest oil-producing nations from the developed world – the United States, Canada, Norway, United Kingdom, Australia and Denmark – have both a 'free civil society' and a 'free press'. Indeed, previous studies that found positive effects of transparency have often focused on developed countries (Alt and Lassen, 2006a, b; Besley and Prat, 2006). In contrast, all EITI participants are developing countries and there is no research to demonstrate that the EITI actually helped to bring any positive political, economic and social benefits to member countries (see the following section).

By implication, the optimism over the adoption of transparency initiatives by developing countries is, at best, exaggerated and, at worst, misguided. The pre-conditions for the success of the EITI are simply not present in countries such as Azerbaijan and Equatorial Guinea. Indeed, after more than 7 years since the launch of the EITI, Azerbaijan is one of only two countries that have so far complied with EITI criteria (the other is Liberia) and Azerbaijan's record on government spending has not improved (see below).

The World Bank-led Revenue Management Program in Chad mentioned earlier ultimately

TABLE IV

Civil liberties and media freedom in largest oil-producing countries in 2007

Country	Oil production (thousand barrels per day)	EITI participant	Political and civil freedom	Media freedom
United States	6895		+	+
Canada	3041		+	+
Norway	2968		+	+
United Kingdom	1809		+	+
Australia	554		+	+
Denmark	377		+	+
Saudi Arabia	11,114			
Russia	9552			
Iran	4267			
Mexico	3760		+	±
China	3627			
Venezuela	2937		±	
United Arab E.	2751			
Kuwait	2643		±	±
Nigeria	2580	+	±	±
Algeria	2016			
Iraq	1833			
Libya	1751			
Brazil	1715		+	±
Kazakhstan	1356	+		
Angola	1233			
Indonesia	1128		+	±
Qatar	1045			
India	784		+	±
Oman	779			
Malaysia	767		±	
Argentina	725		+	±
Egypt	696			
Colombia	554		±	±
Ecuador	541		±	±
Syria	458			
Azerbaijan	452	+		
Yemen	426	+	±	
Vietnam	398			
Equatorial Guinea	356	+		
Sudan	355			
Thailand	265			±
Rep. of Congo	246	+		±
Gabon	234	+	±	
Brunei	206			

Sources: BP Statistical Review of World Energy 2007; Freedom House "Freedom in the World 2007" and "Freedom of the Press 2007" surveys at www.freedomhouse.org (accessed 20 March 2008).
+ Free, ± partly free.

failed. While the programme yielded some economic and social benefits, academic research has demonstrated that it fell far short of the expected outcomes (Gould and Winters, 2007; Kojucharov, 2007; Pegg, 2006). From the start, it became clear that the programme had shortcomings, and the Chadian government was able to divert some earmarked funds towards other purposes. In 2006, Chad's agreement with the World Bank was renegotiated and watered down, and the 'Future Generations Fund' was scrapped, as President Idriss Deby demanded more access to the country's oil revenues in order to purchase weapons for use against his enemies. There have been suggestions that the actions of oil companies further undermined the World Bank's efforts; after threats from the Chadian government in 2006, the US company Chevron and the Malaysian company Petronas agreed to pay undisclosed sums to the government which escaped the Revenue Management Program. Finally, the World Bank withdrew from the Revenue Management Program in September 2008, stating that 'Regrettably, it became evident that the arrangements that had underpinned the Bank's involvement in the Chad/Cameroon pipeline project were not working' (World Bank, 2008).

A frequently cited reason for the problems of the World Bank program in Chad was timing. On the one hand, Chad's government had more bargaining power in 2006 than in 2003 thanks to the inflow of oil revenues; thus, it was in a position to re-negotiate previous agreements. On the other hand, the World Bank failed to effectively create the mechanisms for overseeing the use of oil revenues (including a strong and well-resourced oversight committee) before the start of oil production in 2003. While World Bank officials emphasised the importance of 'sequencing' (that means, encouraging capacity building before allowing oil infrastructure construction), pipeline construction already started 4 months after project approval and oil production started 1 year ahead of schedule. In effect, neither the project oversight committee nor Chad's government institutions were effectively prepared for the inflow of oil revenues, nor were the rules for handling oil revenues effectively established. One observer noted in 2007: 'Nearly seven years into the project and four years since the first batch of oil exports, Chad, the World Bank, and the oil consortium are still trying to negotiate the rules and mechanisms for calculating and distributing oil revenues' (quoted in (Kojucharov, 2007, p. 488).

In more general terms, the problem of timing implies that third parties such as the World Bank and the EITI have even less leverage in established oil-producing countries compared with Chad. In established oil-producing countries (particularly in those countries undergoing an oil boom), the government is less dependent on external aid and loans, it can obtain oil-backed loans from international banks and it can obtain unconditional loans and aid from new actors including the government of China. In other words, the government can escape externally imposed conditions by the World Bank and other third parties. As the author has previously argued, it is no coincidence that many oil-producing countries such as Equatorial Guinea managed to defy the International Monetary Fund (IMF) and the World Bank in different ways for a long time (Frynas, 2004).

In addition to the three conditions identified above, the EITI initiative has inherent limitations, which we shall discuss in the next section.

Limitations of the EITI

Notwithstanding the existing conditions for success, the design and remit of the EITI also have inherent limitations. Above all, the EITI focuses on revenues, not spending.

Effective EITI implementation helps to reveal how much a government has earned from oil and gas, but this does not necessarily help to increase the accountability of government spending. For instance, while the Economist Intelligence Unit praised the accountability of SOFAZ (the revenue savings fund in Azerbaijan), it pointed out: 'International financial institutions have expressed concern that, although management of SOFAZ has proved relatively transparent, that accountability is lost once the funds are transferred for use into the state budget' (Economist Intelligence Unit, 2006, p. 26). In the words of one recent study on Azerbaijan, 'The main weakness of EITI is the lack of reporting and monitoring of the government's spending of oil revenues' (Gulbrandsen and Moe, 2007, p. 822).

Existing empirical evidence on the positive effects of transparency relates to how the money is spent, not how it is earned. All of the positive effects of transparency mentioned earlier – ranging from increased foreign investments to decreased corruption in the health service – relate to the scrutiny of government spending and *not* the scrutiny of government revenues.

Indeed, the premise of the EITI that revenue transparency provides benefits for implementing countries and investors is unproven and speculative, given that existing research focused on government spending – not revenue transparency. Studies on transparency that found positive benefits of transparency focused on the transparency of spending and actual outcomes of spending. Previous research measured the transparency of individual countries according to quantitative indicators such as macroeconomic forecasts (Gelos and Wei, 2005), the publication of IMF reports on the macroeconomic performance of countries (Glennerster and Shin, 2003) and the quality of government budget documentation (Alt and Lassen, 2006a). All of these studies imply that the quality of decision-making on spending is crucial, in terms of complying with international norms and accounting standards, publication and independent verification of government budgets, and the actual outcomes of decision-making. Not a single study quoted earlier focused specifically on the transparency of revenues; indeed, there appears to be an assumption among researchers that transparency of revenues is a secondary concern. In summary, there is no scientific basis for the assertion that revenue transparency leads to better social or economic outcomes.

Lessons from successful resource-rich countries further suggest that the quality of government spending provides the key to addressing governance challenges. It has been found that the economic success of resource-rich countries such as Botswana, Indonesia, Malaysia and Chile had a common characteristic: prudence in spending extractive revenues. A study by Paul Stevens graphically portrayed the approach of successful countries:

> When money was spent, it went on productive activities. Conspicuous consumption and gigantomania were constrained although not entirely absent. Much of the revenue trickled down to the private sector boosting savings and investment. (Stevens, 2005)

Prudent spending was supported by government policies that helped to insulate countries from the negative effects of the resource curse such as 'revenue stabilization' funds, and policies that helped to stimulate the private sector in other parts of the economy. As a result, these countries have been able to grow other economic sectors, in particular, manufacturing. Statistics demonstrate that the per capita GDP growth in non-resource sectors was high in the four countries mentioned above (Stevens, 2005).

The EITI initiative is unlikely to duplicate the success of Botswana or Chile because it does little or nothing to improve the quality of government spending. From this perspective, policy initiatives by the World Bank and the IMF have greater likelihood of success precisely because they deal with government spending. The World Bank initiative in Chad focused on spending, as we mentioned earlier. Similarly, the IMF encourages the publication of country reports that deal with broader transparency and the quality of governance in government finances; these include Reports on the Observance of Standards and Codes (ROSCs) which summarise the respective countries' observance of standards and codes related to auditing, banking supervision, corporate governance, and monetary and financial policy transparency, among others. Indeed, one quantitative study on transparency specifically found that the publication of IMF reports such as ROSCs contributes towards better informed markets and lower costs of borrowing for governments in participating countries (Glennerster and Shin, 2003). In contrast to the World Bank and the IMF, the EITI does not deal with issues of wider transparency and governance of public finances and is unlikely to yield similar positive results.

World Bank/IMF approaches also have limitations because they are externally imposed, thus they may suffer from the lack of societal support and involvement, and they may lack legitimacy for influencing sovereign nations. However, in the face of limitations of the EITI, the World Bank and the IMF may offer alternative mechanisms for improving governance in resource-rich countries. Indeed, in April 2008, the World Bank President Robert

Zoellick announced a new initiative to help developing countries manage their natural resource revenues. The initiative labelled 'The Extractive Industries Transparency Initiative Plus Plus' (EITI++) goes beyond the EITI by offering resource-rich countries World Bank assistance in designing contracts, monitoring operations, collecting taxes and, above all, spending the revenues effectively. While details on the new initiative are still scarce at the time of writing, the World Bank initiative has potentially more merits than the current corporate and policy agenda on governance.

In addition to its narrow focus, one key dilemma of the EITI is that (in the words of one and gas sector insider) it 'shifted the responsibility back to government'. The EITI focuses on the cooperation between the UK government and host governments in developing countries; the initiative does not assign an active role to oil, gas and mining companies in improving governance. The failure to assign a clearer role to companies constrains the pressure on host governments, because the UK government or the World Bank sometimes have less influence over host governments than the multinational companies.

In summary, the main governance initiative in the oil and gas sector – the EITI – has serious shortcomings and is unlikely to duplicate the success stories of countries such as Botswana or Chile. It also fails to draw on the companies' resources in influencing governments, which we discuss in the next section.

Undermining governance through corporate activity

Most oil company executives tend to reject the notion that they could play a constructive role in helping to address governance failures and they have a legitimate concern over corporate involvement in the political process. However, such a stance denies the reality that (1) multinational companies already intervene in the political process to attain corporate objectives (e.g. lobbying for new legislation) (Frynas et al., 2006; Shaffer and Hillman, 2000); (2) corporate activities such as tax avoidance and lobbying may be contributing to governance failures (Henriques, 2007; Utting, 2007) and (3) under certain circumstances, multinational companies may benefit commercially from governance failures in developing countries (e.g. non-enforcement of certain government regulations or the ability of companies to negotiate more profitable agreements with governments) (Frynas, 1998; Frynas and Mellahi, 2003).

It has been suggested that the most effective business method for influencing political outcomes is collective action through organised interest groups. A vast literature demonstrates the impact of business interest groups on policy making (Mitnick, 1993; Olson, 1965; Schattschneider, 1935). In addition, companies use many different methods of political influence, including political donations, public relations and expert advice, which can yield them many business benefits including corporate influence over government policies, better information and reduced uncertainty (Getz, 1993; Hillman and Hitt, 1999; Keim and Zeithaml, 1986).

Oil companies are members of interest groups including industry associations such as the American Petroleum Institute, single issue groups such as the Global Climate Coalition and cross-industry lobbying groups such as the European Round Table of Industrialists, which in turn influence government policies. In line with the influential theory of collective action (Olson, 1965), oil companies are likely to have high political power because there is a relatively small number of big players in the industry that wield high economic power. Thus, the American Petroleum Institute is more influential than, for instance, a small business association. Large multinational oil companies are also powerful enough to single-handedly affect political outcomes in a country. At the extreme, a single company that has a dominant economic position in a country can be particularly influential, as exemplified by BP in Azerbaijan discussed earlier. Companies often use that influence to attain corporate goals. Previous research by the author points to the competitive advantages that oil companies can strategically draw from the political process (Frynas, 1998; Frynas et al., 2006).

Firms are able to influence the institutions that affect them not only through involvement in the political process, but also through influencing technical standards, sources of funding or the media. For instance, in technical committees, sub-committees and working groups of the International Organization for Standardization (ISO), representatives of

TABLE V

Level of formal access for business interest groups

Level of access	Method of access	Example
High	Official function Advisory function	ISO standards US delegation in GATT
Moderate	Consultation Expression of opinion	Kyoto protocol World Bank extractive industries review
Low	No access	

interest groups including firms and consumer bodies are treated as equal partners in shaping the agenda of the ISO. Among other things, multinational companies actively worked on developing the new ISO26000 CSR standard. Indeed, an oil company manager from Exxon – W. James Bover – became chairman of ISO's technical committee on petroleum products and lubricants.[1] The example of the ISO may thus help to partly explain the corporate preference for voluntary agreements rather than formal government regulation, which allows firms to negotiate relatively favourable standards. In addition to the ISO, business lobby groups have played a formal role in a number of important international fora, which allowed them to gain influence over the political process related to social and environmental issues (see Table V).

At this point, it should not necessarily be assumed that the use of influence by oil companies has automatically a negative impact. Indeed, corporate political activities can encourage higher social, environmental and governance standards. For instance, it has been shown that lobbying by firms can help towards more stringent environmental regulations (McWilliams et al., 2002).

However, the actions of companies often have negative political consequences. It has been argued, for instance, that oil companies in Azerbaijan 'have (inadvertently at times) backed the Aliev government's intimidation of dissidents through outright bribery, patronising only government-favoured media or businesses, and eschewing extended contacts with the political opposition' (Chen, 2007, p. 43). A suggestion of a meeting with opposition politicians in Azerbaijan was met with 'less than no interest' by the oil companies (Gulbrandsen and Moe, 2005, p. 59). One scholar noted that: 'the warm and cozy relations of the Azerbaijani government with trans-national oil companies ensure the flow of funds at the expense of state and democracy building in the country' (Valiyev, 2006), quoted in (Chen, 2007, p. 44.).

In many oil-producing countries such as Libya and Venezuela, oil revenues have been shown to prolong authoritarian rule (Karl, 1997; Vandewalle, 1998). For instance, it is no coincidence that some of Africa's longest serving heads of state come from oil-producing countries, including Bongo in Gabon (the country's President 1967–2009), Dos Santos in Angola (since 1979), Obiang in Equatorial Guinea (since 1979) and Qadaffi in Libya (since 1969). Indeed, statistical analysis conducted by Michael Ross on 113 countries over the period 1971–1997 provided evidence that oil and gas exports are strongly associated with authoritarian rule. In general terms, the study suggested that extractive exports concentrated in the hands of a relatively small number of actors have anti-democratic effects, while – for instance – more 'decentralized' agricultural exports have not. Michael Ross concluded that 'the oil-impedes-democracy claim is both valid and statistically robust' (Ross, 2001, p. 356).

Corporate political activities may also have a negative impact through influencing social policy. As Peter Utting of the United Nations Research Institute for Social Development has pointed out, companies often use their political power to advance causes that have negative consequences, such as weakening of labour rights, tax avoidance or privatisation of basic services. The author noted:

> Many of the world's largest corporations and business associations actively promote CSR while simultaneously lobbying forcefully for macroeconomic, labour market and other social policies associated with forms of labour market flexibilisation, deregulation, and fiscal 'reform' that can result in the weakening of institutions and systems of social protection. (Utting, 2007, p. 701)

Whether they are a force for good or bad, companies clearly use political influence, which in turn affects governance. Therefore, the controversy is not merely about the legitimacy of firms to influence government but rather about the actual manner of

using political influence and about the transparency of firms regarding their political activities. Even if companies have done nothing wrong, by not disclosing their corporate lobbying activities, they open themselves up to allegations that they may have something to hide about their political involvement or that they only intervene in the political process when it suits them.

A leading recent book on corporate transparency suggests that even the most transparent companies remain less than open about topics such as corruption and lobbying. The book notes: 'The extent of voluntary disclosure of lobbying activities by companies is very limited, to the extent that currently it is rare to find any voluntary reporting on lobbying expenditure or activities' (Henriques, 2007, p. 154). Company reporting on corruption is also very limited, even by companies with highly developed codes of conduct. Henriques (2007) specifically points to the examples of Shell and BP. Shell, for instance, limits their corruption reporting to the number of 'violations' explicitly reported to the Audit Committee of the Board of Royal Dutch/Shell, and providing specific figures for Nigeria. However, as Henriques points out, the company fails to report on the nature of legal prosecutions, the use of agents or whistle-blowing – all of which are crucial to understanding both the problem of corruption and the company's ability to deal with the problem.

A 2008 report by Transparency International on the oil and gas sector supports the general findings by Henriques. The report analysed 42 leading oil companies (both multinationals and domestic state-owned companies) in 21 countries of operation with regards to revenue transparency. The report suggested that the exclusive focus on the reporting on payments to governments is not sufficient to generating a climate of transparency. It stated:

> Revenue transparency by oil and gas companies is comprised of more than just reporting on payments to home governments on a country-by-country basis. It also requires disclosure of operations data and anti-corruption programmes both of which support such transparency and enable its sustainability by the company.

The key finding of the Transparency International report was that the majority of the 42 analysed companies 'do not make sufficient efforts to report on their payments to host governments on a country-by country basis or to disclose the accompanying information on their operations and anti-corruption programmes' (Transparency International, 2008, p. 24).

Therefore, while companies publicly support transparency, they appear only to select a few areas for openness and they continue to be secretive about other areas. Indeed, CSR reporting and 'transparency initiatives' play a key role in influencing the media and public opinion because they help to portray firms as responsible citizens that care about people and the environment more than about profits. As one study pointed out a long time ago, the influence of interest groups may indeed be greatest when 'disguised as altruistic, nonpartisan or patriotic interest' (Ray, 1972), which can in turn help towards (to borrow from the vocabulary of Jürgen Habermas) 'procurement of legitimation'. Reporting on CSR lends itself perfectly to positively influence external perceptions because it helps to disguise the real self-interest of firms. Henriques (2007, 150) commented that it is ironic that CSR or sustainability reports 'were originally conceived as mechanisms for companies to demonstrate that they were being influenced by their stakeholders, rather than vehicles for the opposite'.

In summary, companies use political influence to attain corporate goals related to profit maximisation, but they rarely use that influence to encourage improvements in governance. While CSR initiatives largely fail to encourage better governance, corporate activities may actually undermine governance.

Conclusion

This article has demonstrated that governance remains the main challenge for extractive industries. Yet, this article has also demonstrated that the current CSR agenda barely addresses governance issues; indeed, corporate actions may contribute to governance failures. One exception is transparency of payments to host governments, which has been supported by a number of multinational companies. This article pointed to abundant evidence that transparency can potentially yield many positive effects – ranging from increased foreign investment

to decreased corruption in health services. However, the effectiveness of the main transparency initiative supported by oil and gas companies – the EITI – is severely constrained. On the one hand, most oil-producing countries lack the conditions for the success of transparency initiatives. On the other hand, the EITI is constrained by its own focus on revenue transparency – as opposed to transparency of government spending. Indeed, there is no scientific basis for the premise of the EITI that revenue transparency leads to better social or economic outcomes.

Current CSR initiatives do not address the question of how multinational companies can be usefully integrated into improving governance. The author believes that companies have a role to play in better governance in the countries where they operate. As this article has suggested, multinational companies are political actors already and they use their influence to pursue corporate objectives. In many countries ranging from Equatorial Guinea to Azerbaijan, Exxon or BP has more influence than the World Bank or other external actors. At the very least, multinational companies could use this influence to persuade governments to sign up to the EITI and the EITI++ initiative, to publish ROSCs or to spend a greater portion of oil revenues on health and education. At the moment, companies continue to neglect the macro-level problems in their industry and the related governance issues.

The contention is not that a single company should accept the responsibility for the wider societal impact of corporate activities. Rather, the unwillingness of both companies and governments to face up to governance challenges (such as the reality of the 'resource curse' in oil-producing countries) constrains the CSR agenda. In simple words: if CSR practitioners do not acknowledge the source of a problem, it may be difficult to consider the most appropriate solutions for it.

In conclusion, CSR debates appear to have marginalised debates on governance and macro-level solutions to complex society-wide problems. There is a real danger that a narrow focus on CSR, local community projects or narrow policy initiatives such as the EITI may divert attention from broader political, economic and social solutions for such problems (cf. Blowfield and Frynas, 2005; Frynas, 2005).

Note

[1] For the list of technical committees, see the ISO website at http://www.iso.ch/meme/memento.html (accessed 12 November 2000 and 7 June 2006).

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