

# The false developmental promise of Corporate Social Responsibility: evidence from multinational oil companies

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The oil and gas sector has been among the leading industries in championing Corporate Social Responsibility (CSR). Oil companies attach greater importance to their social and environmental impact and they engage more with local communities than they used to in the past. This shift is demonstrated by, among other things, the remarkable growth in corporate codes of conduct and social reporting. Oil companies have also embraced major international CSR initiatives such as Kofi Annan's Global Compact and the Global Reporting Initiative (established by CERES, the Coalition for Environmentally Responsible Economies). Royal Dutch/Shell and BP have become significant players in renewable energy, and have professed to be combating carbon dioxide emissions in order to minimize their contribution to global warming.

Furthermore, oil companies have initiated, funded and implemented significant community development schemes. According to one estimate, global spending by oil, gas and mining companies on community development programmes in 2001 was over US\$500 million.<sup>1</sup> Oil companies now help to build schools and hospitals, launch micro-credit schemes for local people and assist youth employment programmes in developing countries. They participate in partnerships with established development agencies such as the US Agency for International Development (USAID) and the United Nations Development Programme (UNDP), while using NGOs to implement development projects on the ground.

However, the effectiveness of CSR initiatives in the oil, gas and mining sectors has been increasingly questioned, and there is mounting evidence of a gap between the stated intentions of business leaders and their actual behaviour and impact in the real world.<sup>2</sup> Some oil industry insiders are also highly critical

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<sup>1</sup> J. B. Wells, M. Perish and L. Guimaraes, 'Can oil and gas companies extend best operating practices to community development assistance programs?', paper presented at the SPE Asia Pacific Oil and Gas Conference and Exhibition, Jakarta, Indonesia, 17–19 April 2001.

<sup>2</sup> See e.g. Jędrzej George Frynas, *Oil in Nigeria: conflict and litigation between oil companies and village communities*

of CSR. Indeed, it is significant that some of the most scathing criticisms of CSR were expressed in conversations with the author by former and current oil company staff and company consultants with first-hand experience of CSR practice in the oil and gas sector, not (as the author expected) by NGO activists. These are the views of three different industry insiders:

- ‘CSR is a waste of time.’
- ‘CSR is about managing perceptions and making people inside and outside the company feel good about themselves.’
- ‘CSR is a red herring in terms of development projects.’

Of course, oil companies have plenty of ‘CSR believers’ and genuine CSR practitioners who would undoubtedly like to dismiss such claims. But criticism by industry insiders must be taken seriously, and calls for an assessment of CSR practice.

The impact of CSR must also be seen in a much broader context of international development, not least since CSR is now being advocated by policy-makers as an alternative route to the public delivery of development, as Rhys Jenkins shows in this special issue. Several World Bank and USAID officials interviewed for this article saw CSR as a potentially long-term solution for delivering development. Therefore, CSR cannot be seen solely through the lens of the ‘business case’, as the expectations of what CSR could potentially accomplish are much broader. From society’s point of view, it is important to assess the contribution that oil companies can make to development. To put it differently: Can companies deliver development? For instance, is expenditure of US\$500 million for local community development money well spent?

CSR activities in oil companies have many elements, encompassing employment issues, environmental issues and local community issues. This article focuses on the last of these three categories and, more specifically, on local community development projects. These projects are sometimes labelled as mere philanthropy in the western world and do not appear on CSR radar screens, but in many developing countries—particularly in Africa—firms are expected to assist their local communities actively. When asked by the World Business Council for Sustainable Development how CSR should be defined, for instance, Ghanaians stressed local community issues such as ‘building local capacity’ and ‘filling in when government falls short’.<sup>3</sup> Taking this grass-roots African understanding of CSR as a starting point, this article takes a look at local community development projects funded by oil companies and tries to assess their actual and potential impact on development.<sup>4</sup>

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(Hamburg, New Brunswick, NJ and London: LIT/Transaction, 2000); Stuart Kirsch, ‘Social impact of the Ok Tedi Mine on the Yonggom Villages of the North Fly, 1992’, *Research in Melanesia* 19, 1995, pp. 23–102.

<sup>3</sup> World Business Council for Sustainable Development, *Corporate social responsibility: making good business sense* (Geneva: WBCSD, 2000).

<sup>4</sup> The article is based on an extensive twelve-month research project on the Gulf of Guinea region, which was generously funded by the Nuffield Foundation. In the course of the research 89 interviews were conducted with oil company staff, consultants, NGO staff, government officials and others in the United Kingdom, the United States, Nigeria, Cameroon and Equatorial Guinea.

What follows is a critical account which suggests that the actual and potential contribution of oil companies to development faces structural constraints. Indeed, this article suggests that the current CSR agenda may be inappropriate for addressing social problems in developing countries and may divert attention from broader political, economic and social solutions for such problems.

### **Motives for CSR engagement and their implications**

It is often assumed that the rise of CSR can be traced directly back to globalization and a concomitant expectation that firms would fill gaps left behind by global governance failures, at the same time as it became easier for NGOs to expose corporate behaviour in far-flung corners of the planet. As a result, firms have been pressurized to 'do something' about the environment, community development or global warming. In some cases the serious social engagement of a company was triggered by a pressure group campaign against it, a process illustrated by the impact of the 1995 Brent Spar and Nigeria crises on Shell's conversion to CSR.<sup>5</sup> Companies have been subjected to public pressure of varying strength, which helps to explain why the reactions of companies to calls for greater social engagement have also varied, as illustrated by the contrast between Exxon's and BP's responses to NGO pressures regarding global warming,<sup>6</sup> or the contrast between the approaches adopted respectively by some western and Asian-based oil companies.<sup>7</sup> However, the fieldwork for this study suggests that the firms' motives for social engagement are much more complex than simply a response to external pressure. These motives greatly limit the positive developmental potential of corporate social engagement.

What, then, drives specific firms to engage in social investment? In this research, the author has identified at least four important factors impelling firms to embark on community development projects:

- obtaining competitive advantage;
- maintaining a stable working environment;
- managing external perceptions;
- keeping employees happy.

This list is by no means exhaustive and other drivers may be added. Furthermore, social initiatives may serve to address several of these motives simultaneously or may be partly motivated by a genuine desire 'to do the right thing'. But even this brief list can help us to understand why social initiatives have only limited developmental potential. Below, I shall briefly discuss each of these four factors and suggest why the companies' motives for embarking on community development projects limit their developmental benefits.

<sup>5</sup> Jędrzej George Frynas, 'Global monitor: Royal Dutch/Shell', *New Political Economy* 8: 2, 2003, pp. 275–85.

<sup>6</sup> I. H. Rowlands, 'Beauty and the beast? BP's and Exxon's positions on global climate change', *Environment and Planning C* 18, 2000, pp. 339–54.

<sup>7</sup> Scott Pegg, 'World leaders and bottom feeders: divergent strategies toward social responsibility and resource extraction', in Christopher May, ed., *Global corporate power* (Boulder, CO: Lynne Rienner, forthcoming 2006).

### *Obtaining competitive advantage*

Social investment can provide companies with a competitive advantage *vis-à-vis* other companies with less social engagement.

In a number of oil-producing countries, socially responsive oil companies appear to have been favoured by the government in the award of oil and gas concessions. For instance, Chevron Texaco in Angola appears to have used its social investments strategically in its attempt to renew its stake in Block o, Angola's most prized oil asset with an output of 400,000 barrels a day. Some Chevron Texaco staff admitted in private that the announcement of a \$50 million partnership among Chevron Texaco, USAID and UNDP in November 2002 was timed to coincide with the Block o negotiations. In early 2004 Chevron Texaco's concession was finally extended from 2010 to 2030, and the company pledged a further \$80 million to a social fund.

While Chevron Texaco's partnership with USAID and UNDP has had discernible developmental benefits in Angola, there has been controversy with regard to oil companies' payments to the Social Bonus Fund of the Angolan state oil corporation Sonangol, the Angolan president's Eduardo Dos Santos Foundation and the bizarre Danish aid group-cum-cult Tvind. Indeed, it has been suggested that this corporate 'social giving' has often served simply as another means of channelling money to Angolan government officials, with few developmental benefits.<sup>8</sup> Aside from activities related to the award of concessions, oil companies have occasionally initiated specific social projects to curry favour with a specific government official, for instance through building an orphanage in the official's village or province of origin.

From the perspective of oil companies, the benefit of social initiatives may be to bring managers closer to political decision-makers, while appearing to be socially responsible. From the perspective of broader society, a crucial pitfall of using social initiatives as a competitive weapon is that the development priorities pursued by oil companies may be those of specific government officials and not necessarily those of the people for whose benefit the initiatives are ostensibly undertaken.

### *Maintaining a stable working environment*

In some cases, for example in the Niger Delta, community protests have halted oil operations, so development projects are occasionally initiated as a way of buying the local communities' agreement to allowing the firm to continue its commercial operations. For instance, Shell's main Nigerian affiliate Shell Petroleum Development Company (SPDC) provides its major contract managers with a development budget, so that when a new pipeline is built, the manager can initiate a new development project within a community in order to enable

<sup>8</sup> Jedrzej George Frynas and Geoffrey Wood, 'Oil and war in Angola', *Review of African Political Economy* 28: 90, 2001, pp. 587–606.

pipeline construction to continue unhindered. When the SPDC team finishes the construction of a particular section of the pipeline, the community development budget for the area is simply closed, which follows the logic of why the firm embarked on the project in the first instance. Thus projects are driven by short-term expediency rather than the long-term development needs of a community; and the problem of this short-term funding is exacerbated by the fact that the major contract managers are not development specialists. In one extreme case narrated to me by a Shell manager, SPDC built three town halls in one Niger Delta community as three community chiefs wanted to benefit personally from contracts for their construction.

If social projects are initiated in order to buy a short spell of peace, the companies are unlikely to engage in proper consultation with the entire affected community. In line with stakeholder theory,<sup>9</sup> firms will listen primarily to those stakeholders who pose the greatest threat to their operations, not those best placed to contribute towards development aims.

### *Managing external perceptions*

Many social initiatives have been started following bad publicity and can be seen as attempts to improve a company's reputation. For instance, in the Nigerian village of Okoroba in Bayelsa State, visited by the author some years ago, a Shell contractor destroyed a hospital building. Shell promised to build a new hospital, but construction was stalled for many years. The hospital was eventually built following bad publicity generated especially by a director of Environmental Rights Action/Friends of the Earth Nigeria, who originated from the village.

In many other cases, corporate social initiatives have been used for public relations purposes, irrespective of their success in fostering the long-term development of a local community. In extreme cases oil companies have publicized projects which did not exist on the ground, or were only partially functional, a practice made easier in developing countries by the difficulty of verifying all such claims. For instance, Shell in Nigeria claimed in an advertising brochure in August 1996 that the Kolo Creek flowstation was providing associated gas for a rural electrification scheme; during the author's visit to the site in early 1997, associated gas was still being flared there.

Kolo Creek is an extreme example of a marketing distortion, but it underlines the importance of PR for CSR practice. If PR priorities take precedence over development priorities, this is likely to affect the planning and the implementation of CSR initiatives. PR needs may, for instance, prioritize media-friendly projects such as donating medical equipment or helping to construct a new hospital, rather than slow local capacity-building or the training of village nurses; this was exactly the lesson of past projects in Nigeria's oil-producing

<sup>9</sup> See e.g. I. Jawahar and G. McLaughlin, 'Toward a descriptive stakeholder theory: an organizational life cycle approach', *Academy of Management Review* 26: 3, 2001, pp. 397-414.

areas. In the words of one oil industry insider, ‘amateurism in the way that things are done is beyond belief, for example, the way the projects are chosen, until I understood that this was tokenism, it was about managing perceptions’. There is a real danger that PR needs may constrain developmental efforts.

### *Keeping employees happy*

Finally, while there are important corporate motives for ensuring that external actors have a positive view of the company (governments, local communities, NGOs and the public), companies also have compelling internal motives for CSR. Field research for this study suggests that CSR is often driven by the firms’ desire to demonstrate to their own employees that the company is a positive force for development. The public criticism of oil and gas companies, with widely publicized stories of environmental damage and the role of oil in conflicts, and arguments that oil wealth tends to retard national economic growth, has a demoralizing effect on their staff. In particular, expatriate staff in developing countries may feel disillusioned, seeing how oil wealth fails to benefit society at large while enriching a country’s elite. In extreme cases, the recruitment of new graduates and the retention of existing staff have been affected.

CSR can be helpful in making staff feel much more positively about the company. However, this corporate motivation is in itself a limiting factor, since it renders the very engagement in social initiatives (rather than the long-term developmental benefit) a goal for companies. Simply making charitable donations to an orphanage or a school, for instance, may make staff feel better about themselves, without the need for the firm to ensure that such donations actually have a developmental benefit. Also, as social initiatives undertaken for this reason are to some extent driven by what makes staff feel better about themselves, the developmental priorities are likely to reflect those of the people inside the firm rather than those of the local community. In one case narrated to me by a consultant, an American manager from a cattle-farming community in Nebraska initiated a cattle-raising scheme for a local community. This is not to say that a community could not benefit from a cattle-raising scheme, but rather that such projects are driven by the priorities of individual employees rather than those of local communities.

### *Pitfalls of the ‘business case’*

The preceding four sections have demonstrated that the ‘business case for CSR’ (that is, the use of social initiatives to attain corporate objectives) sets limits on what such initiatives can achieve for the wider society. Since the ‘business case’ drives CSR, it is not surprising that many corporate social initiatives do not go beyond narrowly philanthropic gestures; for example donating objects such as schoolbooks, mosquito nets or lifejackets to local communities, without any attempt to consult either the community itself or development specialists. Even

such simple gestures sometimes end up as failures. In Equatorial Guinea, ExxonMobil donated mosquito nets to the Health Ministry for malaria prevention, but officials then reportedly sold them not least through export to Cameroon. In Angola, BP reportedly distributed Asian-made condoms as part of an anti-AIDS campaign, but the condoms turned out to be too small for African men. In Nigeria, the author witnessed many non-functioning white elephants, including unfinished buildings designed to be health clinics or schools, water projects where the water was unfit for consumption, or projects such as health clinics which lacked light, running water, basic equipment or staff.

Increasingly, some companies have gone far beyond simple philanthropic engagement and have become more sophisticated in terms of addressing development issues, as illustrated by the example of Shell in Nigeria in the next section. However, since delivering development is not a primary motive for companies to engage in social initiatives, the business case frequently leads to the failure of projects such as the construction of health clinics. According to a leaked independent audit of 2001 commissioned by Shell, less than one-third of Shell's development projects in Nigeria were fully successful in the sense that they were functional.<sup>10</sup> The audit found that Shell was still essentially trying to buy off the local people with gifts rather than trying to offer them genuine development; this followed the logic of using CSR to maintain a stable working environment and improve perceptions of Shell.

As Blowfield and Frynas also argue in this issue, the business case for CSR raises fundamental questions that go far beyond the success or failure of specific CSR initiatives—for example, why crucial economic issues tend to be excluded from the contents of CSR standards. As this article will suggest below, the economic impact of oil and gas investments tends to be more damaging to oil-producing countries than the environmental impact. If oil firms are expected to take responsibility for oil spills, they could equally be expected to take responsibility for their contribution towards the decline of non-oil-producing sectors of the economy. However, current CSR approaches do not envisage conferring such a responsibility on firms.

## **The evolution of CSR and its limitations**

Despite the paramountcy of the business case, CSR has evolved and the issue of development has been addressed to some extent by a number of oil companies, showing the ability of business to adapt to new challenges. One important reason for the evolution of CSR is that the glaring failure of social projects harms a firm's reputation, while doing little to maintain either a stable working environment or staff morale. Therefore, there is a business case for 'effective' delivery of developmental schemes, and CSR practice has accordingly evolved and become more sophisticated.

<sup>10</sup> See 'Nigeria and Shell: helping, but not developing', *The Economist*, 12 May 2001.

This evolution can be witnessed in the case of SPDC in Nigeria. SPDC has recently reorganized its community development unit into the Sustainable Community Development (SCD) unit, with a new emphasis on sustainability and the long-term perspective for all its projects. The company has moved away from its focus on infrastructure projects such as hospitals towards more promising smaller projects such as micro-credit schemes. SPDC has entered into partnership with external development agencies such as USAID and various NGOs, which have greater expertise in implementing development projects on the ground and which now do so on behalf of SPDC. SPDC has also introduced various guidelines for implementing development-related projects to ensure some consistency. Some of SPDC's schemes—notably micro-credit schemes for women implemented by NGOs—are considered relatively successful from a micro-level developmental perspective. Therefore, Shell in Nigeria is an instructive case for investigating the multiple potentials of CSR for development.

However, Shell in Nigeria is also a good example of the constraints faced by even the most sophisticated use of current CSR practices within firms. While SPDC—or, more specifically, its SCD unit—has been ahead of other oil companies in terms of its development thinking, there are still major flaws in Shell's development work, and the results of that work are likely to remain disappointing. Even a number of senior Shell staff and consultants have admitted in private conversations that the creation of the SCD unit is unlikely to have a major impact on the company's behaviour in local communities.

Why, then, do companies such as Shell in Nigeria fail in their developmental efforts? As argued above, one key reason is the primacy of the 'business case' and the incompatibility of corporate objectives with developmental objectives. During the research for this article a number of other important constraints on the implementation of CSR were identified:

- country- and context-specific issues;
- failure to involve the beneficiaries of CSR;
- lack of human resources;
- social attitudes of oil company staff and a focus on technical and managerial solutions;
- failure to integrate CSR initiatives into a larger development plan.

Again, this list is not exhaustive, but it can serve to point out the limited developmental potential of any CSR initiatives. I shall briefly discuss each of these constraints and suggest why the developmental benefits of CSR are inherently limited.

### *Country-specific/context-specific issues*

Specific contexts or countries may make it difficult for firms to implement even the best CSR ideas. The example of Shell in Nigeria demonstrates some of

these problems. While Shell's SCD unit has some excellent strategies and skilful staff, the company also faces many practical implementation problems. Shell's Nigerian subsidiary SPDC suffered from corruption: for example, funds allocated for local communities were on some occasions kept by Shell's community liaison officers with the collusion of corrupt village chiefs. SPDC also suffered from bureaucratic implementation problems as a result of its size and bureaucratic procedures. Shell's bureaucracy was slow, and different arms of the organization (the SCD unit, the company's area managers and its major project managers) conducted development work without much coordination.

In countries as diverse as Nigeria, Colombia or Yemen, CSR work may also be seriously impeded by conflict (e.g. a guerrilla war or inter-ethnic conflict). Sometimes oil companies have contributed to a conflict, while on other occasions they may be drawn into existing conflicts. In either case, a conflict can render oil operations—and, notably, community relations—particularly challenging. In Nigeria, Chevron Texaco's development work in Delta State had to stop completely as a result of inter-ethnic fighting in 2003, and had not resumed by the time of my visit to the Niger Delta in May 2004.

Notwithstanding these country- and context-specific problems, there are more fundamental limitations to the efficacy of CSR work, to which we now turn.

### *Failure to involve the beneficiaries of CSR*

Participation and self-help are regarded as the best routes for development assistance by organizations as diverse as the World Bank and Oxfam. A central idea expressed in the World Bank's Comprehensive Development Framework is that the 'doer' (a person, a community, a country, etc.) needs to be 'in the driver's seat' and actively help itself.<sup>11</sup> To quote E. F. Schumacher: '[If] the rural people of the developing countries are helped to help themselves, I have no doubt that a genuine development will ensue ... [But it] cannot be "produced" by skilful grafting operations carried out by foreign technicians or an indigenous elite that has lost contact with the ordinary people.'<sup>12</sup>

In contrast to best development practice advocated by the World Bank or Oxfam, CSR initiatives have often been conceived by the 'helpers' in the air-conditioned offices of oil companies and consultancies rather than through ongoing participation with the beneficiaries; again, the approach follows the logic of CSR serving corporate objectives. Where oil companies have consulted local communities, the consultation exercises have usually been superficial and grossly inadequate. In villages visited by the author in the Niger Delta—even in some where the local community had signed a formal memorandum of understanding with an oil company for the delivery of a wide

<sup>11</sup> D. Ellerman, *Helping people help themselves: toward a theory of autonomy-compatible help*, Working Paper no. 2693 (Washington DC: World Bank, Oct. 2001).

<sup>12</sup> E. F. Schumacher, *Small is beautiful: economics as if people mattered* (New York: Harper & Row, 1973), pp. 204–5.

range of development projects—the local people sometimes saw a representative of the company less than once a year. When oil company representatives do visit local communities, they do not stay overnight and their consultation exercise may involve only one or several meetings with the key community representatives. In the words of one development professional: ‘No one is happy to stay in a village, so they [oil companies] do quick PRAs [participatory rural appraisals] to put it on paper [rather than staying overnight in the village].’ Oil companies usually fail to consult beyond local chiefs and community leaders. The author’s research suggests that such brief encounters usually result in the local people spontaneously demanding obvious amenities such as electricity, a school or a hospital, without proper consideration of the economic cost, the local needs, the impact of such schemes or the causes of the community’s problems.

The involvement of the beneficiaries of CSR in implementing projects tends to be limited or non-existent and may be limited at best to awarding contracts to locally based companies. While the involvement of locally based companies can be beneficial as it creates local employment, the author’s experience from Nigeria is that these companies are often linked to local strongmen and the award of contracts serves simply to maintain a stable working environment. It is worth citing again the example given above of the Niger Delta community in which Shell built three town halls, reportedly because three different local chiefs asked for three construction contracts for themselves and Shell duly complied: ordinary members of the community were not involved. Such an approach to initiating projects inherently limits the benefits of any potential development schemes.

Worse still, the failure to involve local people has fostered a dependency mentality. Since the construction of buildings and other development projects does not genuinely involve the local people, social initiatives are seen as ‘gifts’ from outsiders and the local people do not feel that they ‘own’ the projects. Schemes introduced in this way cannot remain functional without the continued support of outsiders, which contravenes a basic principle of development. When the author visited one village and found that the drainage system had broken down, he was told that ‘We are appealing to Shell [which built the system] to come do it.’ This dependency mentality is aggravated by a widespread belief in many oil-producing countries that oil is part of the national heritage and that the country’s population can expect to share in this national wealth. Even the ‘best’ development projects, such as micro-credit schemes, can suffer from that mentality: one NGO funded by a gas company claimed that the repayment rate for its micro-credit schemes in the Niger Delta was 86 per cent, while their average repayment rate in Nigeria as a whole was 95 per cent, and ascribed this disparity to the ‘mentality that they [the local people] deserve it and shouldn’t repay’. Even if the local people have the will to fix their drainage system or run another outside-imposed project by themselves, they may not have the right skills or tools to do so, since most projects will not

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have been designed to use local resources or to be run by the villagers themselves once external assistance has dried up.

Many of these problems could be avoided through in-depth consultation and the participation of the local people in genuine self-help initiatives using local knowledge, skills and tools. But the involvement of local communities is inherently constrained by the companies' lack of developmental expertise and the technical/managerial approaches of oil company staff.

### *Lack of human resources*

Even if oil companies set out to act as quasi-development agencies, they tend to lack the human resources to plan and execute genuine developmental schemes. Few people with overseas development expertise move into commercial companies, and community development units are often staffed with managers, former administrative staff, engineers or former government officials. When BP initiated courses to teach its managers about issues such as biodiversity and global warming, they typically turned to a business school (the Judge Management Institute at Cambridge University) rather than a development institution. Furthermore, the staff often spend very little time in the field and lack an understanding of specific local problems.

The internal workings of oil companies also render long-term development initiatives more difficult. Asset managers are often rotated among subsidiaries in different countries (BP moves them every four years), so they tend to lack a long-term commitment to the local communities where the firm operates. Even if one asset manager is committed to genuine CSR, his/her successor may not be as committed and may simply halt a social initiative begun by the predecessor. Thus the championing of development projects with a long-term planning horizon may depend on the leadership of individual managers whose term of office is inherently limited.

Some oil companies have begun to address certain of their human resource shortcomings in the area of development. For instance, Shell's SCD unit in Nigeria was able to headhunt some NGO personnel and a senior UNDP member of staff with development expertise. But even though Shell has a specialized SCD unit, the rest of the company (including, for example, the major contract managers who initiate community development projects) operates in pursuit of 'business as usual', with negative developmental consequences.

### *Social attitudes of oil company staff*

A problem related to the lack of human resources is that many CSR initiatives are inherently flawed as a result of the social attitudes of oil company staff: that is, the social values that guide the decisions they make.

The people in charge within oil companies (such as the company directors and asset managers) usually have a managerial and/or engineering background.

They are highly capable of dealing with technical and managerial challenges, and this orientation is reflected in their approaches to CSR. When the corporate will is there and the CSR challenge can be reduced to distinct technical tasks, oil companies can perform CSR tasks to a high standard. For instance, BP's target to reduce carbon dioxide emissions, led by the company's CEO John Browne, was backed by appropriate performance-related bonuses, and staff reportedly worked hard and enjoyed the technical challenge of suggesting changes to plant and equipment. A technical/managerial challenge can be reduced to 'metrics', 'indicators' or 'guidelines', and job performance can be quantified; but technical/managerial approaches are insufficient in addressing complex social problems.

The limitations of technical/managerial approaches can be seen in the manner in which local communities are consulted. A consultation exercise is inherently qualitative and inherently discursive, requiring in-depth discussions and the establishment of a good rapport among the people involved in it. Treating consultation from a technical/managerial perspective leads firms to speed up discussions with the local people and to try to achieve an immediate goal (such as a written list of local demands) rather than to build bridges with the community and spend long periods discussing the causes of problems. In the words of one development professional in Nigeria: 'Shell learned fast new approaches and paid lip service but corrupted the practice, for example PRAs [participatory rural appraisals] done in two days like an engineering exercise.' This approach helps to explain the companies' failure to involve the beneficiaries of CSR.

### *Failure to integrate CSR initiatives into a larger development plan*

Given the corporate objectives of firms and the practical problems of executing CSR schemes, it is not surprising that corporate social initiatives rarely form part of larger regional development plans. Existing independently of such plans, CSR can yield no more than a drop in the ocean of development efforts, and even those resources that are devoted to it may not be channelled for the most effective developmental use.

Since projects are often driven by short-term expediency, 'decisions are taken at too low a level as to which projects to execute', as one development professional put it. So there may be little coordination in determining which areas should benefit and how projects can be put together to contribute to a greater whole. In one local area visited by the author, an oil company in Nigeria built a road which ran parallel to another road built by the Niger Delta Development Commission: this is an extreme example of coordination failure, but it underlines the importance of planning and coordination for the success of development projects.

Worse still, by not integrating CSR into macro-level developmental plans, oil companies run the risk of causing local conflicts and creating negative

developmental consequences. One example from Nigeria is the concept of a 'host community', according to which oil companies have a social responsibility towards the local community located closest to their oil facilities. Preference for one community may breed jealousy from other communities and give rise to intercommunal conflicts. In one extreme case narrated to the author, members of one community burned down a relatively successful 'host community' (which was located closer to oil company premises than their own) in order to benefit from host community status themselves. This is perhaps the most extreme example of the grave effects that can result from adopting a micro-level rather than a macro-level perspective in implementing CSR.

Most basically, perhaps, as oil companies are not development agencies, they do not tend to prioritize overall development goals, so there are inherent limitations on the contribution social initiatives can make to the greater whole. As one village chief put it to me: 'A tree cannot make a forest.'

### **Best practice in CSR**

Not surprisingly, in view of the problems discussed above, there are very few examples of oil-company-funded projects which could be regarded as 'best development practice' along the lines advocated by the World Bank or Oxfam. After researching Nigeria's oil industry for almost ten years, the author has identified only one such project: Statoil's Akassa project in Bayelsa State. Indeed, Statoil's funding for this project in south-eastern Nigeria has come to symbolize the potential positive benefits of oil company development work, and has recently served as a role model for other oil companies and external donors in the Niger Delta. I shall briefly outline the project, and in the next section will go on to suggest why even the best projects, such as this one, have inherent developmental limitations.

The Akassa project was funded by Statoil (and initially also BP, now Chevron Texaco) but was implemented by a development NGO called ProNatura, which had exceptional developmental expertise and was able to execute the project without interference from oil company managers. One important distinguishing factor of the Akassa project was that it was based entirely on grass-roots priorities, driven not by outsiders deciding which specific initiatives should be implemented but largely by the local people. In contrast to the often superficial consultation exercises with local people undertaken by oil companies, ProNatura conducted an in-depth appraisal of the needs of the community over a long period of time. ProNatura staff went to live in the villages and had extensive discussions with the local people about their problems and the causes of these problems, before even starting to plan any initiatives. Furthermore, the project was fully community-led, the planning process involving not just the chiefs (as in previous oil company schemes) but also women and 'youths'. Also, crucially, ProNatura helped to build up the capacity of the local people to help themselves, among other ways by helping to set up new institutions such as a

development foundation and community development councils, as well as providing training and advice to the local people. Finally, the Akassa project was not targeted on one or several 'host communities' but was part of a development plan for the entire Akassa Clan (encompassing some 30,000 people).<sup>13</sup> The Akassa project has now come to be seen as a benchmark for best practice in the Niger Delta, and ProNatura is currently trying to emulate this approach in the process of executing development projects on behalf of France's Total and the tiny Canadian-based oil firm Nexen.

Oil company staff in other companies, such as Shell, and some development professionals have doubts as to whether the Akassa project could be replicated elsewhere in Nigeria or in oil-producing areas in other countries, since there is little evidence of oil operations in the Akassa area itself: oil operations here are located offshore. Statoil started funding the project even before it moved in (and Statoil has not yet started oil production), and the area has enjoyed a long period of peace and stability. As a consequence, ProNatura is said to have faced fewer constraints, such as the influence of the dependency mentality. However, denigration of the project on these grounds is not necessarily warranted, and should not be allowed to detract from its success. ProNatura's work for Total in long standing oil-producing areas may yet prove the doubters wrong, and one should welcome a success story which could be used as a role model elsewhere.

Nonetheless, even if such best practice can be adopted, CSR does not solve some of the most fundamental problems arising from oil operations, namely the negative impact of the oil industry on the environment, society and governance. These form the subject of the following section.

## **Negative developmental impact of the oil industry**

Oil operations pose a threat to the environment at each stage of the supply chain—exploration, production, transportation and refining. During exploration for oil, potential environmental damage includes, among other things, clearance of land, which can lead to a long-lasting or permanent loss of vegetation, and drilling activities, which can lead to the release into the ecosystem of drilling fluids. Oil production activities can have an adverse impact on the environment through damage from leaking pipelines or atmospheric emissions from the flaring of gas, a by-product of oil production. During transportation, tankers release oil into the sea in the course of pumping out bilge-water or unloading the cargo. The pollution from refineries can include the release of waste water containing oil residuals, solid waste disposal and atmospheric emissions. In addition to the ecological hazards arising in the course of oil operations, end-user consumption of oil products—as of other fossil fuels—is

<sup>13</sup> For more information, see W. D. Knight, N. C. Alagoa and D. Von Kemedi, 'Akassa: a new approach to the problems of the Niger Delta', paper presented at the SPE International Conference on Health, Safety and the Environment in Oil and Gas Exploration and Production, Stavanger, Norway, 26–28 June 2000.

an important contributor to global warming.<sup>14</sup> Developing countries have suffered disproportionately more than developed countries from oil-related pollution. For example, Nigeria is reported to have had over 300 oil spills per year in the early 1990s,<sup>15</sup> many more than in the developed world.

Oil operations also have adverse social effects on the local communities in oil-producing areas. In the most extreme cases in the developing world, establishment of oil infrastructure may deprive the local people of any means of subsistence. I have shown elsewhere how the construction of access roads and other infrastructure in Nigeria has resulted in the diversion of rivers or drying up of water reservoirs, rendering areas unsuitable for fishing and forcing families to quit their settlements. More typically, oil operations cause the destruction of private property and agricultural land or conflicts over land among the local people. Inward migration of oil workers not infrequently leads to prostitution, the spread of AIDS or a rise in local food prices.<sup>16</sup>

In addition to negative developmental effects on specific families or communities, the oil industry has been blamed for distorting national economies and governance. Many oil-producing states in the developing world have suffered from the phenomenon known as the 'resource curse'. Despite being well endowed with natural resources, these states have experienced economic underdevelopment, military conflict and political mismanagement, a finding supported by many quantitative and qualitative studies,<sup>17</sup> and accepted by World Bank and IMF economists. Quantitative studies show that states with a high proportion of natural resource exports have had lower economic growth rates than states without these resources. The causes of this lower growth include a phenomenon known as the 'Dutch Disease', whereby large inflows of foreign exchange make exports of agricultural and manufacturing goods more expensive and draw resources from non-mineral sectors, thereby stifling the development of those sectors. Oil exports are also said to undermine good governance and political accountability to society, not least through the neglect of non-mineral tax revenues, the relaxation of government accountability standards and the growth of a dependency mentality. I shall not recount those arguments here, as they are well known and can be found readily elsewhere.<sup>18</sup>

With the rise of CSR, oil companies have increasingly invested time and money in safer technologies to reduce pollution from oil operations and have refined their stakeholder management to improve local community relations.

<sup>14</sup> See e.g. R. B. Clark, ed., *The long-term effects of oil pollution on marine populations, communities and ecosystems* (London: Royal Society, 1982); J. Ketola, 'Why don't the oil companies clean up their act? The realities of environmental planning', *Long Range Planning* 31: 1, 1998, pp. 108–19.

<sup>15</sup> Frynas, *Oil in Nigeria*, p. 165.

<sup>16</sup> See e.g. Frynas, *Oil in Nigeria*, ch. 5; Frynas, 'The oil boom in Equatorial Guinea', *African Affairs* 103: 413, 2004, pp. 527–46.

<sup>17</sup> See e.g. J. D. Sachs and A. M. Warner, *Natural resource abundance and economic growth*, Development Discussion Paper no. 517 (Cambridge, MA: Harvard Institute for International Development, Oct. 1995); A. Gelb et al., *Oil windfalls: blessing or curse?* (New York: Oxford University Press, 1988).

<sup>18</sup> For a review, see M. L. Ross, 'The political economy of the resource curse', *World Politics* 51: 2, 1999, pp. 297–322.

However, with the exception of reductions in carbon dioxide emissions championed by environmental pressure groups, CSR initiatives focus on the micro-level effects of the oil industry on specific families or communities and fail to address the macro-level effects. While social and environmental effects are mitigated and some well-meaning community development projects are initiated, no attention is given to the economic and political effects on nation-states.

It is not my intention to dismiss all potential benefits from corporate social initiatives; rather, I wish to ask why some of the key developmental issues are entirely ignored in CSR. Arguably, the most serious negative effects of the oil industry are related to the resource curse: while an oil spill may damage livelihoods in one community, resource curse effects may damage livelihoods in an entire country. Yet CSR does not even attempt to address any negative developmental effects related to the resource curse.

To put it differently: even if some developmental benefits can be derived from CSR, CSR does not address crucial questions of governance. The reason why companies such as Shell in Nigeria have been asked to build schools and hospitals is that the government has failed in its developmental role. When governance fails, local people often turn to oil companies to provide development projects, and this phenomenon can be seen in extreme form in Nigeria, where Shell has been regarded by many as a quasi-government. But the development projects funded by oil companies are often inadequate, as shown above. And even if CSR in the oil industry were to develop best practices and deliver development effectively, then there would be even less pressure on governments in countries such as Nigeria to provide such benefits. And yet it is the government which tends to receive the lion's share of oil revenues from oil companies, sometimes amounting to 70–80 per cent of those revenues. In other words, even the best CSR initiatives can access only the 20–30 per cent share of oil revenues accruing to oil companies, and cannot address how the remaining 70–80 per cent should be used for the country's development.<sup>19</sup> By implication, it is arguable that CSR may provide a lose–lose outcome for a country's governance: governance failures lead to calls for a role of CSR in development; usually CSR is unable to play such a positive developmental role, but even if CSR could play such a role, this would ease the pressure on the government to undertake a developmental role itself.

While improvements in governance are arguably what many developing countries need most, oil companies tend to be reluctant to contribute towards better governance, despite the fact that this would have greater developmental

<sup>19</sup> The 'Publish What You Pay' campaign by Global Witness and other NGOs addresses the issue of revenues and taxation by urging oil companies to publish the amount of money they pay to corrupt governments. Support for such voluntary transparency came notably from the UK government through the Extractive Industries Transparency Initiative (EITI). But one key dilemma of current transparency measures is that (in the words of one oil industry insider) they 'shifted the responsibility back to government'. Transparency initiatives do not address the crucial issues of how the management of oil revenues could be improved, how the influx of oil revenues may be contributing to bad governance in the first instance or the role of oil companies in governance.

potential in the longer term than isolated charitable giving. One notable exception has been Statoil, which has funded a few activities designed to build up governance capability, such as working in partnership with the UNDP, Amnesty International and the Venezuelan judiciary (involving human rights training for Venezuelan judges). In Nigeria, Statoil funded a local NGO to provide training for Shari'a court judges in the north of the country. Yet most oil companies prefer to display their charity rather than trying to help contribute towards positive macro-level solutions for their host countries. A senior USAID official recounted in a private conversation how American firms have been keen on getting involved in various educational and health schemes, but 'for instance, we couldn't get companies involved in party-building activities in Zambia'.

Oil company managers 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 threefold reality that (1) firms already intervene in the political process to attain corporate objectives (e.g. lobbying for new legislation); (2) oil industry operations may be contributing to governance failures; and (3) under certain circumstances, oil companies may benefit commercially from governance failures in developing countries (e.g. through non-enforcement of certain government regulations, or the ability of companies to negotiate more profitable agreements with governments).<sup>20</sup> Given their significance, governance issues could conceivably be an important part of a CSR agenda, but the boundaries of current CSR appear to have been set without regard to the most pressing developmental challenges.

## **Conclusion**

In order to avoid misunderstandings, it may be useful to clarify what this article does not argue. This article does not argue that CSR is discredited because some corporate initiatives have failed. Development agencies and NGOs also have their share of failed development projects, despite their superior developmental expertise. Like petrodollars, the influx of public aid is said to create 'resource curse' effects,<sup>21</sup> while aid delivery has come to rely on NGOs, private contractors and others, which can erode governance structures.<sup>22</sup> The issue is not that firms simply make mistakes or create negative externalities. Rather, my argument is that there are fundamental problems about the capacity of private firms to deliver development, and the aspiration of achieving broader development goals through CSR may be flawed.

<sup>20</sup> See Jędrzej George Frynas, 'Political instability and business: focus on Shell in Nigeria', *Third World Quarterly* 19: 3, 1998, pp. 457–79.

<sup>21</sup> See e.g. S. Younger, 'Aid and the Dutch Disease: macroeconomic management when everybody loves you', *World Development* 20: 11, 1992, pp. 1587–97.

<sup>22</sup> See e.g. OECD, *Improving the effectiveness of aid systems: the case of Mali* (Paris: OECD, 2000).

One limitation of this study is that it focuses on only one aspect of CSR—local community development projects—and does not comprehensively investigate all aspects of CSR work, including such areas as environmental remediation or human rights. Nonetheless, local community assistance is seen as the key corporate responsibility in some developing countries, and this focus allows us to consider the constraints of current CSR approaches. Perhaps the key constraint on CSR's role in development is the business case, that is, the subservience of any CSR schemes to corporate objectives. This article does not question companies' right to make profit, but it does suggest that profit-maximizing motives are often incompatible with good development practice. Furthermore, this article has identified a number of constraints on CSR, including country- and context-specific issues; the failure to involve the beneficiaries of CSR; the lack of human resources; social attitudes of oil company staff, and the failure to integrate CSR projects into larger development plans. As it exists today in the oil industry, CSR has limited potential for fostering genuine local community development in practice.

Notwithstanding this multitude of constraints, this article does not deny a place for private firms in development. Beyond their purely economic role, multinational firms could be expected to play a constructive part in macro-level development and governance. But the current CSR agenda fails to address the crucial issues of governance and the negative macro-level effects that multinational firms cause in host countries. The issue is not that regulation can solve most social problems; government interventions have indeed frequently failed in developing countries. Rather, the CSR discourse appears to have marginalized debates on governance and macro-level solutions to complex society-wide problems. There is a real danger that a focus on CSR may divert attention from broader political, economic and social solutions to such problems.

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