Exploring the Definitions and Practices of Corporate Social Responsibility (CSR) from a Corporate Perspective:
A case of the InterOil Corporation in Papua New Guinea

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Michael George
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ABSTRACT

This thesis explored the extent to which the concept of corporate social responsibility (CSR) is defined and articulated by corporations in the Oil and Gas Project in Papua New Guinea, using the case of InterOil Corporation. The thesis offered a discussion on the views, understanding and practices of corporate economic, legal, ethical and philanthropic responsibilities.

The thesis has examined the ways in which the concept of CSR is broadly understood at the governmental or corporate level. The study analysed official documents, including relevant legislation such as the Oil and Gas Act (1998), the Environmental Act (2000) and corporate annual reports. In addition, in-depth interviews with the participants - managers and employees from InterOil Corporation - were also analysed. The analysis revealed an understanding that the main focus of CSR is on redistribution of economic benefits and corporate moral imperatives. This has influenced the extent to which CSR is defined and practiced. The main concern for all stakeholders, reflected in analysis of documents and interviews, was redistribution of economic benefits.

The study showed that there is a significant lack of planning and policy at institutional levels: government and corporation. As a result, it has created confusion or an overlap of responsibilities between corporate CSR and government constitutional obligations of service delivery to affected landowner communities. In essence, CSR practices, in line with Giddens (1998) *third way governance* has shifted political, economic, financial powers and intellectual control away from "nations into de-politicised global space" (p. 140) by creating an inappropriate development programs, which shifted responsibilities, including the state's traditional roles in providing community services, onto the company (InterOil). On the other hand, the government has seemingly maintained a hands-off approach, while maintaining a tight approach to benefit redistribution.

The importance of this research is that it addresses a gap in the literature on corporate social responsibility from the perspective of corporations in oil and gas projects in PNG. It offers empirical evidence of a need for future research in CSR practices in oil and gas or resource development in PNG.

ACKNOWLEDGEMENTS

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ABBREVIATIONS

CA	Community Affairs
CSR	Corporate Social Responsibility
EA 2000	Environmental Act 2000
IOC	InterOil Corporations
IFI	International Financial Institute
ISO	International Standardisation for Environmental Reporting/International Environmental Management Certificate
MOA	Memorandum of Agreement
OGA 1998	Oil and Gas Act 1998
PNG	Papua New Guinea
WCED	World Commission for Economic Development
WBCSD	World Business Council for Sustainable Development

MAP OF PAPUA NEW GUINEA AND INTEROIL'S PETROLEUM PROSPECTING SITES
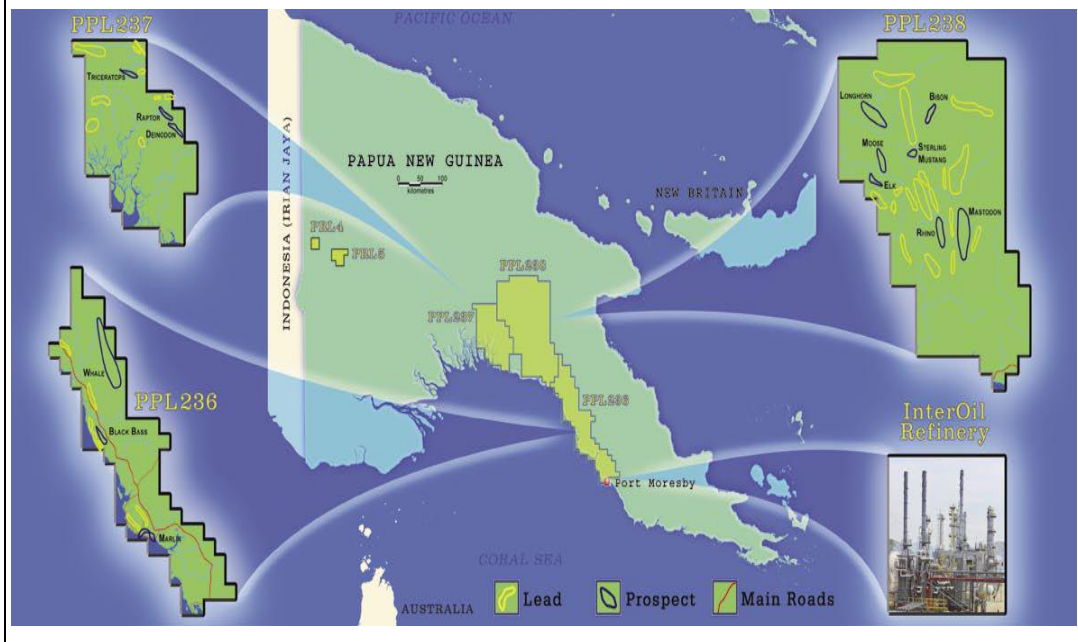
Figure 1: Map of InterOil's Petroleum Prospecting Licence (PPL) area and production sites. Source: InterOil Corporation Annual Report, 2003

CHAPTER 1 INTRODUCTION

1.1 Introduction

The primary aim of this thesis is to explore the extent to which the concept of corporate social responsibility (CSR) is defined and articulated in Papua New Guinea (PNG), especially with reference to corporate practices. The research involves a case study of one of the multinational corporations in oil and gas exploration, InterOil Corporation (IOC), in PNG.

Current need for CSR or, broadly, sustainable development practices in PNG is deeply rooted in historical development of the country and its relationship with its colonial imperial authority- Australia. PNG was an Australian colonial territory which became an independent sovereign country in 1975. Prior to independence, a mission of Australia was to subdue any social traditional interest of society within its colony, and to introduce and establish forms of capitalist economy (see Ghai & Regan, 1992). This was mainly to maintain its (Australia's) interest in exploration of Panguna copper mine, on the island of Bougainville.

At that time, the major focus of Australian government and the government of newly independent state of PNG was to promote economic development, and mineral exploration was considered major source of revenue to build PNG's economy and to serve Australian capitalist interest. Thus, Panguna mine on the Island of Bougainville became important source of revenue, effectively serving the interest of both governments, until 1989, when mining operations was sabotaged and forced to close by local militants. This has led to a decade of bloody conflict between Australian supported, PNG government military with local militants, which resulted in loss of fifteen to twenty thousand lives. The main issue that instigated the conflict is governments' (Australia-PNG) and corporations (Australian CRA and British Rio Tinto Zinc) subordination of local demands, in terms of mining benefits, landowners participation, compensation payment and importantly, resentment against the social and environmental effects of the mine by locals. The led up of this conflict has become an important cornerstone or case in point for the current subsequent development of CSR or, broadly, sustainable development initiatives, either at legislative level or at

corporate level. Thus, this study looks at the current development and practices of CSR, from the perspective of corporations, as introduced earlier.

In brief, this thesis comprises of six chapters (see section 1.7) of this chapter for detail description or overview of each chapters. The chapters are organised as follows: Chapter 1 introduction, Chapter 2 theoretical framework, Chapter 3 methodology and method, Chapter 4 analysis of key documents and interview responses, Chapter 5 discussion of findings, and Chapter 6 is conclusion. These chapters provide information that leads to an exploration of topic and research aims for the thesis.

1.2 Background to research

An assessment of PNG's environment and development after 25 years of its independence shows that economic development has always been associated with "unacceptable levels of environment degradation and destruction" (Kwa, 2003, p. 167). This is largely due to the government's inability to provide a strong legislative framework to prevent further environmental destruction. The notion of sustainability and CSR is outlined in PNG's development goals, enshrined in its constitution and implemented through sectorial policies. The idea of ecological sustainable development is explicitly adopted and promoted in PNG's environmental policy, and CSR is considered to be part of the business social and economic responsibilities of organisations; despite this, a report by the Constitutional Review Commission shows that there is a lack of any concrete framework for implementation (Kwa, 1997, as cited in Kwa, 2003). Consequently, there is a significant degree of socio-economic disparity in the PNG society (Gumoi, 2003). This is particularly evident in communities where mining exploration takes place; for example, Taylor (2004) attempted to explain this as follows:

> We want a school, we want a hospital, we want long term economic development, we want a road, we want an airstrip, and we want a town to be built … if you agree to do this, you will have your mine … if you open mine without our permission, we will kill you. (pp. 24-31)

When it comes to defining social responsibility between the companies and local communities in PNG, there is no "win-win-win" situation (Taylor, 2004). For

companies, practising social responsibility is a way of gaining a "social license" to operate. Communities, for their part, are willing to give this social licence only if the companies meet their demands and comply with what they want (Gilberthorpe & Banks, 2011; Taylor, 2004). It is worth noting that culture, politics and socio-economic factors, as well as the pressure exerted by stakeholders on companies to meet their needs and aspirations, play an important role in shaping and reshaping the way and the extent to which companies define and practice CSR.

In theory, governments play a crucial role in the interactions between business and the society as a part of its responsibilities of protecting the interest of its citizens. It does this through its regulatory mechanisms in two ways: it protects citizens from business externalities, like economic, social and environmental risks, and it regulates business practices (Filer & Imbun, 2004; Trevino & Nelson, 2011). In PNG, the Oil and Gas Act 1998 (OGA 1998) and the Environmental Act 2000 (EA 2000) are two important laws that provide a legislative framework for the conduct and the operations of mining and petroleum companies. These Acts (OGA 1998 and EA 2000) were formulated to address the problem of corporate social responsibility and affected landowner communities in mining and petroleum exploration areas.

The main problem is that there has been a lack of stakeholders' participation, especially landowners or affected communities and provincial and local-level government, in project areas. As a result, there has been an increasing "landowner politics" and growing concern for the rights and access to the benefits from the petroleum development (Kirsk, 2004; Sagir, 2004). This is partly due to the government's inability to strengthen its regulations, as well as companies' unethical approach to community and environment (e.g., Johnston & Jorgenson, 1994). In response to this, legislation governing mining exploration, such as the PNG Mining Act of 1987 and 1992, was reviewed, and the result showed that the state was generally weak, and often times has collaborated with corporations with an aim to increasing economic interest (Filer & Imbun, 2004; Johnston & Jorgensen, 1994).

Since then, and to date, there has been a growing concern, particularly by affected landowner communities, with regards to their land and environment and access to benefits from the project. For example, there was a case reported in the PNG's *National Newspaper* (2009) of a court injunction taken by landowners to stop the operations of PNG liquefied natural gas because of a lack of a national environmental policy to guide the operations of companies. Similarly, a number of recent cases reported in PNG's *Post-Courier* and the *National Newspaper* articles (e.g., The National, 2012; Nebas, 2012; Paul, 2012; Post-Courier, 2012) point to an indefinite forced closure of major mining and petroleum explorations in PNG. These closures are largely a result of landowners' dissatisfaction with corporations and the state for not effectively and clearly engaging with local landowners on some of the decisions made on the exploration of natural resources, such as gold, copper, oil and gas, on their land (Paul, 2012). In addition, there is a sense among landowners that they have missed out on the benefits of resource development, as envisaged in the memorandum of agreement (MOA) between the state, corporations and local landowners (The National, 2012; Nebas, 2012). For example, a review of the mine closure plan for Misima gold mine on Lihir Island, New Ireland province, reveals people's concerns about not seeing any tangible benefits or sustainable development even 20 years after exploration began in the mine (The National News, 2012). Similarly, Nebas (2012) reports a case of an indefinite forced closure of Wafi gold exploration in Morobe province, because landowners felt they were denied the rights to access social and economic benefits as agreed upon in an initial stage of stakeholder agreements on resource development. According to John Nema, president of Wafi-Golfu landowners' association, most of the agreements are signed in Port Moresby (CBD) without proper consultation, consent and concerted effort being put into the negotiation process by landowners (Nebas, 2012). Thus, the state and multinational corporations have been manipulating negotiation processes to pursue their own interests (Nebas, 2012). In fact, a number of studies into PNG's extractive industry (e.g., Gardner, 2004; Imbun, 2007; Jorgensen, 2004; Kepore & Imbun, 2010; Sagir, 2004; Weiner, 2004) have revealed the complex nature of the relationship between corporations, the state and local landowners, with regard to corporate social responsibilities. For example, studies by Sagir (2004) and Weiner (2004) on petroleum exploration and landowners in the Southern-Highlands

province show a strong emerging trend of landowner politics around ownership of land and the benefits of the projects on their land.

Also, past cases, notably the case of the Bougainville mine catastrophe and Ok Tedi mine debacles, serve as an important case in point for a discussion of CSR practices in PNG today. These cases, involving Rio Tinto and BHP Billiton's corporate social and environmental responsibilities of Panguna mine, Bougainville, and Ok Tedi mines of PNG, gained international prominence in 1998 (Filer, Burton, & Banks, 2008). At that time, the concept of CSR was somewhat vague to multinational corporations, resulting in it being implemented in a fragmented way across PNG's mining and petroleum sectors. As the then chairman of Rio Tinto, Sir Robert Wilson, put it, "PNG was a country in which it was very hard to distinguish between environmental and social responsibility - or lack of it" (Filer et al., 2008, p. 164). Hence, an important question that remains a concern for this research is:

> *How do companies themselves understand, define and articulate the concept of corporate social responsibility in PNG?*

This thesis addresses this question through a case study of InterOil Corporation, an integrated oil and gas company in PNG. The company operates a chain of activities, starting from crude exploration to distribution and retailing. Under the Oil and Gas Act 1998 (OGA 1998), InterOil has entered into an agreement with the PNG government to extract, produce and distribute petroleum and crude oil products to domestic markets in PNG, as well as to export to overseas' markets. InterOil has three segments of its operations –upstream, midstream and downstream (InterOil Corporation Annual Report, 2003).

The upstream activities focus on exploration of crude oil at Eastern Papuan Basin, Gulf Province, northwest of Port Moresby. Midstream operations involve production and refining of crude oil to finished petroleum products, while the down-stream segment distributes refined products to domestic markets in PNG on a wholesale and retail basis (InterOil Annual Report, 2003, 2004, 2007).

1.3   Brief background on Papua New Guinea

By global standards, PNG is a small open developing economy, predominantly a primary producing nation, with a high degree of dependence on exports and

imports. It relies heavily on the export of primary products, such as gold, copper, coffee, cocoa, copra, timber and the production of petroleum, for its immediate consumption. Agriculture forms the basis of its economy, with over 80 per cent of the population being rural-based subsistence farmers (Gumoi, 2003; United Nation Economic and Social Survey of Asia and the Pacific (UNESCAP), 2011). PNG moved to a liberal open market economy in the 1990s, aimed at achieving greater economic development (Curtin, 2000; Turner & Kavanamur, 2004). The approach to an open economy has witnessed an increased presence of multinational corporations and foreign investment, particularly in the mineral and petroleum industry. This led to strong economic growth in 2007 with real Gross Domestic Product (GDP) of 6.2 per cent (UNESCAP, 2008). The current inclusion of major liquefied natural gas projects (PNGLNG) to mineral and petroleum industries has further increased the GDP, at the rate of 7.1 per cent in 2010 (UNESCAP, 2011). The population growth rate was at 3.1 per cent in 2007, and with the current economic development boosted by PNGLNG, it is projected to double in the future. Despite UNSCAP's report on its economic development, PNG faces significant development challenges, such as weak governance, political instability, systematic white-collar corruption, law and order problems, and education and health issues such as illiteracy and HIV (Profile PNG-mining & petroleum investment, 2009; UNESCAP, 2008). A recent statistical report by the National Literacy Awareness Secretariat reveals that only 56.2% of the country's six million people are literate (Oreke, 2012).

PNG's post-independence economic outlook has been disappointing, with slow growth rates, largely due to an unreliable mineral sector. Since then, the economy has often been interrupted by some short-lived bursts, too often followed with busts, associated with major projects commencing or closing. For example, the real growth rate was at its lowest in 1990 and 1991, largely due to the Bougainville conflict and the forced closure of the Panguna mine. However, by the end of 1993, it was again reported to have increased its real growth rate at 12 per cent, due to the opening of Kutubu oil exploration in the Southern Highlands province (Profile PNG-mining & petroleum investment, 2009). Thus, one of the biggest challenges since the Bougainville conflict and to date is about managing landowner politics and conflicting interests with regards to social responsibilities

and related issues of companies (Profile PNG-mining & petroleum investment, 2009; Sagir, 2004).

1.4 CSR, conflict, risk and issues

PNG is no different from any other developing countries in the world, particularly the resource developing countries. The development of resources is associated with issues, risk and crises. The Bougainville conflict of 1989 and the Ok Tedi mine debacles of the 1990s, instigated by the unethical actions of companies and their implications for people and their environment, have been widely written about (Connell & Howitt, 1991; Johnston & Jorgensen, 1994). Prior to the outbreak of violence in Bougainville, most of the multinational companies, like BHP Billiton, British Petroleum, Rio Tinto and Chevron Oil, had proposed what was seemingly an idea to promote social and environmental responsibilities and broadly sustainable development. But the main intention for these corporations was to avoid being liable for environmental destruction and to avoid the idea of compensation payments (O'Faircheallaigh & Ali, 2008). Thus the idea of sustainable development remained a mere façade for business as usual (Filer et al., 2008). More recently, critics assessing CSR discourses and social realities in PNG have noted that the current approaches to CSR can be seen as a bid to legitimise corporate operations after decades of conflict, social dislocations and environmental destruction (Gilberthope & Banks, 2011). From a public relations perspective, the idea of risk is constructed around issues such as social issues, economic, health and environmental issues, which can be "discursively constructed or contested" (Roper, Collins, & Toledano, 2004, p. 41).

The ultimate purpose of issue management can be seen as a direct response to legislation or a public policy in which businesses would either comply or reshape themselves to suit their interests (L'Etang, 2009). In fact, a number of studies (e.g., Beck, 2005; L'Etang, 2009; Regester & Larkin 1997) showed that the organisations' social responsibilities start with crises or issues, such as environmental issues, social and health issues, which they think might affect their operations. For example, a survey of public opinion was conducted in the United Kingdom and the United States concerning organisations' relationships with the community and their response to risk and issues. The result of this survey showed that the more the demands for companies' ethical practices, the more socially

responsible were the companies in defining and responding to public issues and concerns (Regester & Larkin, 1997). Issues are defined as consequences of some actions, either taken or proposed, between individuals or parties, through the process of public policy or regulatory actions, or put more simply, it is expressed in terms of a gap between corporate social responsibilities and stakeholder expectations (Regester & Larkin, 1997). According to Beck (2005) risk is a direct result of today's industrialisation, globalisation, and capitalism. Therefore, CSR is almost the same as corporate financial values, because at the centre of corporate motivation is the desire to redress the balance of negative and positive impacts of the projects to affected communities (L'Etang, 2009; Gilberthope & Banks, 2011).

In PNG, CSR is associated with much concerted effort from corporations to legitimise or to portray a positive image of the extractive industry, after a decade of violent conflict that was largely a result of environmental disaster and little considerations to indigenous rights (Gilberthope & Banks, 2011; Imbun, 2010). However, this approach has never been clearly understood and articulated by corporations (Filer et al., 2008). Furthermore, as Imbun (2007) says, CSR is a relatively new concept to attract the attention of corporations, particularly in extractive industries. Similarly, Banks (2009), who has assessed PNG's mineral sector and transnational corporations, describes CSR practices in PNG as an "evolving field" that shapes and is reshaping corporate attitudes towards social responsibility and community engagement. According to Banks (2009), CSR practice is likely to create a tension between national development imperatives and international pressures; secondly, it creates economic and social disparity between foreign investors and domestic businesses within society. For example, Banks (2009) shows that domestic businesses are more likely to operate coherently in line with government's development policies and goals than multinational foreign investors. By the same token, those communities with ownership of major project areas are likely to benefit more in terms of royalty and compensation payments than those outside of project areas, leading to increased social disintegration and infighting, particularly among clans and tribes (Banks, 2009).

An assessment of the effects of extractive industries and CSR practices on indigenous people provides interesting results. Firstly, Filer et al. (2008) show that

companies understood what it meant to be socially and environmentally responsible only after being faced with realities of their actions, and their understanding of the concept of CSR is at best fragmented. Secondly, there is no proper consultation between mining companies, government agencies and local communities. The lack of a clear understanding of the notion of CSR has provided opportunities for politicians and community or clan leaders to secure a greater personal share and interest in the mining benefits (Filer et al., 2008). Furthermore, a report provided by Commission of Law Bulletin of PNG (1981) maintains that corporate CSR practices play a more centralised strategic role in pushing the local community away from the power of decision making to the periphery, posing a threat to long term development and freedom of society. Yet again, the important question is how corporations themselves are defining and articulating CSR.

1.5   Social relations and environmental security

In PNG, there is an intrinsic relationship between society and its environment. People are organised into tribes and clans and land is communally owned. It is believed that through this relationship, current environmental problems can be solved. As Kirsch (2008) says in one of his studies on PNG's mineral explorations, "… a social relation is a way of addressing environmental problems" (p. 294). From a cultural perspective, such a relationship is a bond of life-long marriage relationships. Violation of this often leads to two things: either tribal fights or compensation (Kirsch, 2008). According to Kirsch (2008), it is in keeping with this worldview that local PNG communities have a firm belief that social relations cannot be achieved by Western technological innovations or scientific knowledge guided by bureaucratic processes or administrative rationality, as proposed in the Weberian bureaucratic model (Dryzek & Schlosberg, 2005). Such belief fits perfectly well with earlier writings of the German sociologist, Max Weber, on "problem-solving" (Dryzek & Schlosberg, 2005; Sabel, Fung, & Karkkainen, 2005). In Weberian bureaucracies, the collective approach is an essence of human problem solving and this involves the wider field of expertise, from science, social sciences, management, legal advice, as well as the community on the ground (Dryzek & Schlosberg, 2005). Departing from the Weberian model, yet maintaining the views of collective approach to problem solving, Sabel et al. (2005) introduce the notion of "rolling-rule regulations" (p. 117). In the context of

CSR discussions, the rolling-rule regulation reinforces the idea of stakeholder relations and community participation, where environmental issues are collectively approached and solved (Sabel et al., 2005). In PNG, ignorance of stakeholders or violations of social relations often lead to crises (Kirsk, 2004). The term stakeholder refers to any party that can affect or be affected by the actions of the business (Freeman & Velamuri, 2006). Furthermore, any damage to cultural, environmental or social relationships often leads to compensation demands in the form of cash payment (Jared, 1999).

Currently, there is an increasing concern from resource land owning communities about social and environmental issues, such as health and HIV/AIDS, environmental destruction, soil degradation, water pollution and unsocial behaviour. As a result of these issues, landowners are increasingly demanding corporations to compensate for the damages caused to their land and environment (Sagir, 2004; Weiner, 2004). According to the concept of "risk society," this is a sign of emerging "sub-politics" (Becks, 2005, p. 585). That is, such local movement leads to a change of the worldviews and perspectives of locals with regards to their social and environmental relations. Jones (2002) described this as the "new ground rules of the interaction between firms and its publics" (p. 49), largely as a result of public concern regarding issues affecting them. The change of local worldviews, social and environmental relations and their interactions with companies in PNG is evident in the "emergence of landowner politics" and the demand for recognition (Weiner, 2004, p. 5). Ulrich Beck's notion of risk or risk society is a most notable theory in the current public relations practices, and it promotes the idea of having development that is more socially responsible and environmentally sustainable. A lack of this would consequently lead to loss of trust and destabilisation of government, business, and societal relations (Roper, 2009). The emergence of landowner politics in PNG is a sign of a risk society that feels exploited and continues to have a similar concern over social and environmental issues, while simultaneously demanding corporations meet their demands in terms of social and philanthropic activities.

As stated earlier, there is a gap in the literature on definitional issues of CSR. There are many descriptions of the concept (e.g., Dahlsrub, 2008) with a wider spectrum of responsibilities (Carroll, 1991). Thus it is clear that there is no

consistent definition. In the context of PNG, the lack of a broad conceptual understanding of CSR is particularly apparent. A number of studies (e.g., Banks, 2010; Filer et al., 2010; Gilberthorpe & Banks, 2011; Imbun, 2007; Imbun & Kepore, 2010) have researched CSR but not from the perspective of corporations. Therefore, this thesis focuses on how corporations understand, interpret and articulate CSR, with the following research questions:

1. What is the definition of CSR from the perspective of corporations (i.e., how do they understand, define and practice it?)?

This question looks at how corporations or businesses understand CSR. This question will clarify how businesses practice CSR, and what motivates them to define and practice the way they do.

2. What is the impact of varying definitions of CSR on the stakeholders' participation?

This question aims at identifying factors that influence corporate behaviour and corporate operational strategy; that is, how do they approach or engage with the wider stakeholders, who include state, society and public, on CSR issues?

3. How does CSR promote productive/meaningful participation amongst the stakeholders (corporations, the state and community)?

This question aims to look at the relationships between business and its stakeholders. It will assess participation levels of business and its stakeholders. Also, it looks at how corporations report CSR by communicating it to stakeholders.

1.6   Significance of the study

This research helps illuminate the understanding of CSR practices in PNG. There are two important points to the study: (1) Why understand CSR? (2) Why understand CSR from the PNG context?

1.6.1 Why Corporate Social Responsibility?

A relentless quest for profits has been the major cause of some of the world's worst environmental destruction, social dislocations, health and HIV issues, genocides, civil wars and related problems. For example, in the close of the twentieth century, public concern regarding environmental problems was quite high, and many multinational corporations came under strong public scrutiny regarding their environmental accountability and social responsibilities. One

example of such is the public criticism on the proposed sinking by Shell of the redundant Brent Spar oil platform in the North Sea in the mid-1990s (Dunphy, Griffiths, & Benn, 2007). Another example is the case of criticism of Nike for their abuse of labourers (Knight, 2007); similarly, Monsanto was castigated when it failed to address issues affecting its stakeholders (Dunphy et al., 2007). Furthermore, Union Carbide came under strong public criticism and political scrutiny in relation to the Bhopal gas tragedy, which killed and injured thousands of lives in Bhopal, India (Munshi & Kurian, 2005).

In response to these concerns, more and more companies are making efforts to strengthen their reputations or becoming responsive to the needs of their various publics, through CSR practices. An increasing number of initiatives are being taken; for example, corporate triple bottom line reporting of environmental, social and economic sustainability (Jones, 2002), building corporate culture (Lingard, 2006), and stakeholder engagement (Freeman & Velamuri, 2006). Thus, there has been a significant value shift and a new emerging standard of corporate performance, which is largely a result of consumer and public dissatisfaction with corporate behaviour, evidenced by large business deception, corruption, health and safety issues, disregard for environmental impacts, cheap labour trading and unethical behaviour (Knight, 2007). These changes have compelled many companies to ask questions that look beyond profit making in relation to the beliefs and principles that guide their behaviour. Also, operating in a globalised society, many companies are increasingly targeted and scrutinised for poor environmental performance, lack of social responsibility and low ethical and moral standards; such companies are believed to be posing risks for corporate sustainability, while simultaneously bringing into popularity CSR practices as part of their issue management strategy (Freeman & Velamuri, 2006; Morsing & Oswald, 2006).

1.6.2 Why CSR in PNG?

Previous studies on corporate social responsibilities have generally looked at the past experiences of corporate operations and the descriptions of the approaches to the current practices (e.g., Filer et al., 1998; Gilberthope & Banks, 2011; Imbun, 2007; Kepore & Imbun, 2010). However, the earliest cases, such as that of the Bougainville mine catastrophe and Ok Tedi mine debacles, were largely due to

fragmentation of social and environmental responsibilities (Filer et al., 1998). More recent studies on current CSR practices show that CSR is an evolving or emerging concept (Banks, 2009; Gilberthope & Banks, 2011; Imbun, 2007), evidenced with an increased acceptance and demand for CSR by a number of companies, particularly in the extractive industry (Imbun & Kepore, 2010). Adopting the idea of CSR by companies is largely due to increasing demand from communities in project areas (Imbun & Kepore, 2010). This is a sign of significant corporate value shift and is therefore significant to this research.

1.7   Thesis outline

This thesis is divided into six chapters: introduction, theoretical framework, methodology and methods, analysis, discussion of results, and conclusion.

Chapter 1 Introduction

The introductory chapter provides a background to research, looking at the context and motivation for this particular study. The rationale and the importance of the research, research objectives, and research questions are also discussed in this part.

Chapter 2 Theoretical framework

Chapter 2 of the thesis constructs a theoretical framework for the study. This part looks at the review of relevant literature on the main themes, concepts and theories around CSR practices.

Chapter 3 Methodology and method

The methodology chapter covers two parts. The first part gives a philosophical background to the research paradigm followed in the study. This research is exploratory and looks at the interpretation of social phenomena. The interpretive paradigm and the qualitative approach are used to conduct this research.

Chapter 4 Analysis: Key document and interview responses

Chapter 4 provides an analysis of key documents and interview responses. The chapter aims to interpret, analyse and discuss primary data with regards to main themes of CSR discussed in Chapter 2.

Chapter 5 Discussion

This chapter discusses the findings of the data analysis. The main focus is to explore business perspectives and business understanding of CSR practices in PNG. The results will be based on the views, opinions and expressions of the case corporation's community affairs/social divisional managers, supervisors/team leaders and employees. Discussions of results are made in light of the themes, theories and approaches discussed in the literature in Chapter 2.

Chapter 6 Conclusion

The conclusion chapter returns to look at research questions in relation to data analysis, (2) discusses implications for policy development and best practices for CSR in PNG, (3) contributes to the theory of CSR and (4) charts a pathway for further research.

CHAPTER 2 THEORETICAL FRAMEWORK

2.1 Introduction

The objective of this chapter is to discuss the theoretical concepts that set the parameters for this thesis. Relevant literature will be reviewed to bring together different concepts, approaches, responsibilities and theories constituting corporate social responsibility (CSR) practices. CSR represents a wider discussion, views and perspectives, which are complex and unclear (Garriga & Melé, 2004). The major issue is how CSR is defined and whether different approaches or responsibilities constituting CSR are understood and integrated in business activities (Jones & Wicks, 1999).

An increasing amount of literature (e.g., Carroll, 1991; Dahlsrub, 2008; Freeman & Velamuri, 2006; Kim & Reber, 2008; Mersham, Theunissen, & Peart, 2009; Tench & Yeomans, 2009; Van Marrewijk, 2003) draws a general consensus that there is no clear definition of CSR, but there are number of approaches and responsibilities used to describe how it is practiced. In fact, Carroll (1991), Van Marrewijk (2003) and Dahlsrub (2008) maintain that the current definitions of CSR practice remain contentious; it is also likely to be biased by discipline so that it serves specific interests and purposes. For example, an empirical study analysing the definitional construct of 37 existing definitions of CSR showed that CSR definitions are varied by disciplines and interests, but the practices are generally centred on five main dimensions that provide a framework of CSR: economic, environment, social, stakeholder and ethical responsibilities (Dahlsrub, 2008; also see Carroll, 1991, 1999). A clearer framework of CSR is perhaps given in Carroll's (1991) pyramid CSR model. Carroll's (1991) pyramid model constitutes four main components of CSR:

- Economic responsibilities,
- Legal responsibilities,
- Ethical responsibilities and
- Philanthropic responsibilities

Carroll's (1991) CSR model provides an important framework for the current subsequent development of CSR related concepts, approaches and responsibilities

(Mersham et al., 2009; Tench & Yeomans, 2009). This study uses different theories, approaches and responsibilities of CSR to explore how the notion of CSR is defined and articulated by companies in Papua New Guinea (PNG).

This chapter explores different approaches, responsibilities and theories that frame corporate understanding of CSR practices, with particular reference to PNG. That is, do corporations in PNG understand or not what they do with regards to their social responsibility? There are five parts to this section:

(1) Concepts and definitions. This part will define and differentiate CSR with and from other related concepts, like sustainable development and an evolution of CSR practices

(2) Debates and discussions surrounding CSR practices. This part discusses different views and perspectives of CSR

(3) Approaches and responsibilities. This part looks at different approaches and responsibilities of corporate CSR practices

(4) An analysis of a CSR model or framework. This part will provide an analysis of a framework of CSR practices, based on different approaches, theories and responsibilities that will be discussed and,

(5) Summary.

2.2   Concepts and the definitions

Often confused with CSR are terms such as sustainability or sustainable development, but in practice they are interchangeably used in such a way that at times companies may use sustainability as an umbrella concept to implement social responsibility, and vice versa; they may sometimes use CSR to meet their sustainability goals (Trevino & Nelson, 2011). Sometimes these two terms can be synonymously or strategically used (Cheney, Roper, & May, 2007), depending on the situation and the context in which companies operate (Akisik & Gal, 2011; Gilberthorpe & Banks, 2011). If these concepts are used as strategies then it signals a possible risk to corporate operations, and such risk is often a result of public concern on social and environment issues (Jones, 2002). As Jones (2002) stipulates, in response to public concern and to maintain relationship with their public, corporations use CSR or sustainable development to minimise potential risk to their operations. For example, Gilberthorpe and Banks' (2011) study on

the recent approach of multinational corporations in mining operations in Papua New Guinea (PNG) showed that "the emergence of Corporate Social Responsibility (CSR) in the extractive industries represents the bid to legitimize the sector after decades of environmental disaster and trampling of indigenous rights" (p. 1). Gilberthorpe and Banks (2011) showed that CSR and sustainability were interchangeably used as a framework to address public concern on environmental destruction and social issues.

The interchangeable use of the terms CSR and sustainability often causes confusion at different times and in different contexts. As such, it is worth defining the terms to shed light on the understanding of relationships and differences. In fact, the concepts of sustainability or sustainable development and CSR got their popularity in 1970s, when the attention of the world leaders was drawn to the fast depleting state of the world's natural resources. However, the definition varied according to discipline, until the meaning given in the Brundtland Report of 1987 became widely used (Dryzek & Schlosberg, 2005). In its 1987 report, Brundtland stated: "'Our Common Future' set out a guide for the concept of sustainable development as 'development that meets the needs of the present without compromising the ability of the future generations to meet their own needs'" (World Commission for Economic Development (WCED), 1987, p. 43).

The definition given in the 1987 WCED report was used as a point or case by different organisations to make a meaning that suited them in different contexts and disciplines. That means the use of the word sustainability or CSR would often mean nothing but brings to stakeholders awareness of business keeping to moral, ethical and environmental concerns as expressed in WCED report (World Business Council for Sustainable Development (WBCSD, 2001). In that, the terms – sustainable development and CSR - were interchangeably used, until the 2002 Johannesburg Summit, where world business leaders met and distinctively recognised and defined the two terms in the context of business. From the business perspective, the term "sustainability" or "sustainable development" is defined as "forms of progress that meet the needs of the present without compromising the ability of the future generation" (p. 2), whereas CSR is defined as "the commitment of business to contribute to sustainable economic growth, working with employees, their families, the local community, and society at large

to improve their quality of life" (WBCSD, 2001, p. 6). The use of these definitions does not necessarily mean changes of the organisational bottom line. For example, in business, keeping to a financial bottom line, competitive market, and comparative advantage was seen as the essence of achieving sustainable development objectives. On that note, CSR is seen as an important framework that could potentially deliver the goals of sustainable development as enshrined in the WCED or Bruntland report of 1987 (WBCSD, 2001).

Today, the concepts of sustainable development (SD) and corporate social responsibility (CSR) are an important part of business ethical practices, even if they contradict business goals or may not necessarily be in policy intentions for business operations (Diener & Seligman, 2004; Freeman & Velamuri, 2006). Goals, activities and underlined intentions of business seemed to be sandwiched between these concepts and are said to take precedence. Thus it remains controversial; for example, currently it is seen as a "buzzword," being used to create a positive corporate image that justifies corporations' actions (Munshi and Kurian, 2005).

There are three important aspects of sustainability as defined in WCED report: economic, social and environmental aspects. These aspects are an integral part of companies' responsibilities, which provides important relationships between CSR and sustainability in a model of profit, people and planet (Wempe & Kaptein, 2002, cited in Van Marrewijk, 2003). According to Van Marrewijk (2003), there is a strong relationship between CSR and sustainability, and both terms are loosely defined and used to suit specific interests of companies or disciplines but inclusively involve social and environmental concerns. In this sense, companies' social responsibilities and their sustainability remain debated in different disciplines.

2.3   Corporate Social Responsibility

The preview of an analysis of the debates surrounding CSR has shown that its meaning varies distinctively by the discipline in which it is being practiced (Cheney et al., 2007). In this work (Cheney et al., 2007), the authors expressed a concern surrounding theoretical and practical aspects of CSR practices. One concern expressed is the question on "how" CSR ought to be. This question is

evident, with different views and perspectives of CSR from four different perspectives - economic, social, environmental and legal perspectives - which are discussed differently in the fields of communication, business law, sociology, political science, economics, accounting, and environmental studies (Cheney et al., 2007). In fact, much of the CSR literature maintains that there is no single definition of CSR (Carroll, 1991; 1999; Dahlsrub, 2008; Kampf, 2007; Mersham, Theunissen, & Peart, 2009; Tench & Yeomans, 2009). In this case, the context dictates that businesses may define CSR as a strategy for business sustainability (Kim & Reber, 2008) or company strategy for competitive advantage (Porter & Kramer, 2006). Environmentalists may emphasise achieving high levels of environmental performance (e.g., reduced emissions) (McWilliams, Siegel, & Wright, 2006), and vice versa, while others in the field of law may see it as part of moral and legal responsibilities of business (Votaw, 1972). This makes CSR an ambiguous subject with no clear definition, because "it means something, but not always the same thing, to everybody" (Votaw, 1972, p. 25).

The ambiguous nature of CSR is influenced by stakeholders in specific contexts (Kampf, 2007), in that how businesses define, articulate and report their social responsibilities are potentially influenced by cultural perspectives of stakeholders in the context or environment in which they operate (Silberhorn & Warren, 2007). Kampf (2007) calls this a "cultural systems perspective" (p. 55). That is, if CSR practices are done in accordance with stakeholders' interest, then there is a possibility that the systems and cultural perspectives of a particular context are likely to influence and situate CSR development and practices. In an empirical study, Kampf (2007) used a cultural systems perspective to analyse how CSR is situated and communicated between the corporations and their stakeholders. Two different cases were used to demonstrate how the cultural perspective of stakeholders shapes and situates corporate CSR. One is that of Wal-Mart and its CSR practices in the cultural context of the United States, and the other is that of Maersk's CSR practices in the context of Denmark. This study found that being socially or environmentally responsible corporations does not necessarily imply that the company is more socially responsible, but such practices are determined by the situation and stakeholder perspectives from the culture in which that business operates. For example, using the case of Wal-Mart and Maersk, Kampf (2007) showed that cultural systems perspectives distinctively define the roles that

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stakeholders expect corporations and governments to play. In the case of these two multinational corporations, Wal-Mart was seen as situated in a system where historically there was a system of corporations performing their social and community responsibilities, which is not the same in the case of Maersk, where the Danish government has historically taken care of societal needs through higher taxes. This study provides a focal point of understanding of how corporations frame and develop their social responsibility practices within the cultural bounds of a given nation.

A number of studies on CSR have shown that CSR, in fact, is an "evolutionary" concept, evolving over the years and distinctively defined by time, place and activities or specific events (Bakker, Groenewegen, & Hond, 2005; Carroll, 1991; Seeger & Hipfel, 2007; Silberhorn & Warren, 2007;). Seeger and Hipfel (2007), for example, stated that CSR started with the industrial revolution.

A critical review of definitional constructs of CSR by Carroll (1991) categorised CSR into four main responsibilities, as outlined earlier. According to Trevino and Nelson (2011), these four responsibilities are interrelated in that they make business morally obligated to meeting societal needs. For example, the primary economic role of business is to produce goods and services that consumers need and want, while making profit. Carroll's (1991) pyramid of CSR showed that above its economic responsibility, businesses are expected to carry out their work according to the rules and regulations of the host country. Also, the pyramid showed that above its legal responsibility is the ethical obligation that corporations or business are expected to conform to. It is in this part that moral duties come to guide corporate behaviour and approaches to their operations with regards to social, economic and environmental considerations and to make development that is "right, just and fair" (Tench & Yeomans, 2009, p. 106). Philanthropy is the last corporate responsibility on the ladder of the CSR pyramid, but it is considered important because all corporate activities centred on it. It can include, for example, human welfare, health and education (Trevino & Nelson, 2011). Carroll's (1991) work was based on Howard R. Bowen's work of the 1950s. Perhaps one of the earliest genuine organisational approaches to CSR, Bowen's work (1953, as cited in Carroll, 1999) set forth an initial definition of CSR, stating it as "… obligations of businessmen to pursue those policies, to

make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 270).

2.4   Approaches to CSR

Although there is no clear definition of CSR, different approaches, such as stakeholder, corporate philanthropy, business ethics, sustainability and triple bottom line, corporate accountability and corporate social reporting, and corporate performance, have been used to describe CSR practices (Bakker et al., 2005; Silberhorn & Warren, 2007). These terms may differ to a certain extent in different contexts. As such, Silberhorn and Warren (2007) suggest that to understand how CSR is defined and articulated, "one starting point in terms of CSR research is to explore how corporations are themselves defining and interpreting CSR" (p. 353). This study has found that CSR, in fact, is part of corporate normative goals, but what seems to be lacking is the understanding of why and how it is practiced. This implies that there is a general lack of understanding on what approaches and responsibilities constitute CSR.

Silberhorn and Warren (2007) have explored the definitions of CSR by analysing websites of 40 British and German Companies. They found that CSR is situational and contextual, which means that how CSR is defined and practiced is influenced and determined by the specificity of a context. Similarly, a number of empirical studies showed that when there is a greater demand from stakeholders for corporate CSR or sustainability reporting, then there is a high response from corporations (Imbun, 2007; Tee, Roper, & Kearins, 2007). For example, if there is a demand for philanthropy from stakeholders, then the corporations are likely to define and interpret CSR according to that perspective or as demanded by that situation, and if a situation attracts a lot of stakeholder pressure on corporations, it would mean that corporations have to comply with that demand in defining or reporting CSR accordingly (Imbun, 2007). An empirical study by Imbun (2007) on corporate CSR practices in the context of mining development in Papua New Guinea has revealed that culture and the context are important determining factors in corporate CSR practices. This study showed that the corporate approach to CSR is a direct response to pressure exerted on them by stakeholders to meet their philanthropic role.

Porter and Kramer (2006) summarise CSR into two approaches. One is the pragmatic approach and the other one is the strategic approach. From the pragmatic stance, they indicate obvious CSR responsibilities that matter to corporate stakeholders, such as informing them of negative impacts of projects, like social and environmental issues, having open dialogue and establishing understanding with affected stakeholders or meeting consumers' needs and demands. Also, philanthropic responsibilities, such as community activities and charitable duties, were looked at under the pragmatic approach. Porter and Kramer (2006) introduced a strategic approach to CSR, maintaining that the other approaches or responsibilities of CSR are fragmented and so "disconnected" from business strategy. According to them, CSR should equally embrace business values, as well as societal values, as a "shared value." In light of this, they further stated that lack of shared values obscures clear benefits of CSR projects to society. In stating this, they proposed a framework, specifying 5 strategic approaches, which promote shared values that corporations use or may use to identify positive or negative impacts or specific issues that are addressable within their capacity, so as to strategically position or contextualise CSR within a particular context (Porter & Kramer, 2006).

The five strategic approaches are: first, identifying the point of intersection. That is, company and society are different entities that can be integrated through CSR, and so identifying intersecting points of interest is important. For example, a company enters a new business environment to make profit, but it has to take into account societal concern as well, and this is where a point of intersection comes in. The second strategy is to choose a specific social issue that is addressable and which relates to the project, because not all societal problems can be solved. The third strategy is to create a corporate social agenda, and that involves ranking and prioritising social issues that address both societal concern and economic benefits. The fourth strategy is to "integrate inside-out and out-side in practices," (Porter & Kramer, 2006, p. 89), which involves integration of social and economic dimensions in companies' operations, and the final strategy is "creating a social dimension to the value proposition" (Porter & Kramer, 2006, pp. 89-90, 2011). Thus, these five strategies promote the notion of "shared values," which effectively reinforces the idea of a unified approach to CSR, where there is

integration of economic values and social values with government regulations. In essence, there is integration of interest and values of different stakeholders.

2.4.1 CSR as a stakeholder approach

The term stakeholder, according to Freeman (1984, as cited in Trevino & Nelson, 2011), is "any party (e.g., customers, employees, suppliers, the government, stockholders, the company) who is affected by business and its actions and who has a stake in what the organisations does and how it performs" (p. 323). In other words, regardless of your visions, goals or the purpose that you stand for, it is necessary that you take into account the effects of your actions on others, and vice versa, you consider their effects on you. The basic logic of the stakeholder approach is that the stakeholder is the basic unit of analysis, an important strategy that equally fits into any framework or context either among a few people or a large group of people (Freeman, 2004). It is true in business, however, that today most business organisations focus more on managing issues than affected communities or people, because, according to Freeman (2004), issues are created by people and so building relations with them is an important unit of the strategic approach towards issue management. Bendell (2003) provides a number of approaches through which relationships with stakeholders can be established. According to Bendell (2003), a strong relationship starts with an effective stakeholder dialogue in which many issues are generated and can be resolved through two-way communication, which involve stakeholder interactions, participation and consultation processes.

Business scholars, such as Edward R. Freeman, introduced a more specific focus of CSR, relating it to immediate stakeholders (Freeman, 1984, cited in Freeman & Velamuri, 2006). The main goal of having immediate or key stakeholders is to create "value and fulfil corporate responsibilities to them" (p. 508). The opposing thoughts or issues associated with a focus of having immediate stakeholders are suggested by classical economists like Milton Friedman. From neoclassical views, immediacy of having key stakeholders is another way of introducing issues of "segregation," separating business from social and ethical responsibilities (Freeman & Velamuri, 2006). Others (e.g., Lingard, 2006) believe that CSR starts within the organisations through strong corporate practices that create a "corporate culture" (p. 217). According to Lingard (2006), building a corporate

culture and values would lead to improved internal business operations. Consequently, this helps corporations to implement their social responsibility, which starts with building individual employees' values through communicating the idea of CSR to them (Kim & Reber, 2006; Lingard, 2006).

Others, for example Scott and Lane (2000) and Peltokorpi, Alho and Kujala (2006), have looked at stakeholder relations with the managers and their influence towards organisational change. According to Scott and Lane (2000), stakeholders change the identity of the organisations, either positively or negatively, to create organisational identity. They have shown that there is an important relationship between organisations, managers and the stakeholders. Based on the work of Brown (1997, as cited in Scott & Lane), individual identity and organisational identity are equally linked. That means individuals create an image of organisations while interacting with the organisation. On the other hand, managers present an image to individuals, which may not be the real image. In this case, the underlying intention for a manager is to build relationships with stakeholders. From managers' perspectives, stakeholders are the ones who bestowed legitimacy on the organisations and have the potential to affect organisations' operations (Scott & Lane, 2000), because they (stakeholders) are the party that can affect or be affected by the actions of companies (Freeman, 1980, cited in Freeman & Velamuri, 2006). Differences on the views of stakeholders and companies' management result in inviting scepticism to a stakeholder approach to CSR; for example, Jamali (2008) states that stakeholders in general can be seen as an abstract concept. Along the same line of argument, Maignan, Ferrell and Ferrell (2005) argued that even though businesses in general claim to be accountable to society at large, in fact, they are deemed accountable only to immediate stakeholders or agents with whom their interest lies. Such level of scepticism to the stakeholder approach raises a legitimate question as to whose interest a corporation represents. This question is justifiable; for example, Jamali (2008) and Clarkson (1995) maintain that the notion of stakeholder and society is more an abstraction, because managers would have problems managing their organisation while simultaneously trying to contribute to the whole society. As pointed out by Clarkson (1995), the notion of society is more inclusive and more ambiguous, thus it remains as an abstract idea. As such, Maignan et al. (2005) stated that the use of the term social or society, from a managerial view point, could be seen as a

legitimate approach, but in fact the focus is on immediate stakeholders and communities who could potentially affect or be affected by corporate operations. One reason for the idea of engaging with immediate stakeholders is, perhaps, that the immediate stakeholder would be in a better position to know more about their environment and the land issues affecting them as a unit in a community, and understanding this establishes good community relations (e.g., Mersham et al., 2009). A classic example in New Zealand is the case of Māori: under the Treaty of Waitangi and in compliance with the Resource Management Act 1991, government or developers consult with Māori in decision-making, because Māori would know better than developers or government about land issues, tribal organisational structure and community make-up, thus understanding this helps creates strong community relations with regards to CSR practices (Mersham et al., 2009). Similarly, in PNG understanding tribal organisation and clans that make up community would help create good relationships and, conversely, failure to do this leads to conflicting interests.

However, with the current increase in concern for the ethicality of corporate practices from the public, NGOs and the government, engagement has now pushed beyond corporate focus on the immediate stakeholder to consider taking account of extended stakeholder interest that empowers their participation (Cooper & Owen, 2007). Similarly, Kaptein and Van Tulder (2003) pointed out that many companies are now setting their goals and responsibilities with considerations to values and interest of wider stakeholders, and that includes shareholders, business and development partners, consumers, NGOs, community and government. In this study, Kaptein and Van Tulder (2003) analysed codes and reported documents of 100 companies around the world and found that an increasing number of companies are now having programs and responsibilities that involve an effective stakeholder dialogue. They stated that such a corporate approach towards wider stakeholders is a direct result of conflicting interest, which arose in the early 1980s between companies and the stakeholders. One example given in Kaptein and Van Tulder (2003) is that of Nestlé, a company that received a fair share of public criticism and a strong conflicting interest from its stakeholders about the sale of baby milk in the 1980s. In response to these criticisms and conflicting interest, Nestlé took two important approaches as part of its CSR practices or global social responsibility to restore its reputation and

positive public image. First, in its strategic decision-making, Nestlé recognised the interest of its consumers, shareholders, business partners, and other stakeholders; secondly, in all its operations, legal and ethical responsibilities that were deemed a requirement of individual nations were fully embraced and implemented (Kaptein & Van Tulder, 2003). This has been evidenced by numerous organisations adopting triple bottom line performance criteria and, in so doing, reflecting the significant broadening of values and a multi-stakeholder approach, which increasingly has created an engagement in dialogue with key stakeholders, ensuring their interests are taken into account (Dunphy, Griffin, & Ben, 2007). Furthermore, in the recent past, the concept of stakeholder has transformed or shifted with a new model of stakeholder governance (Deetz, 2007; Donaldson & Preston, 1994). According to Donaldson and Preston (1995) and Deetz (2007), this model of stakeholder governance involves open dialogue, public consultation regarding the impact of corporate activities, and in effect it promotes the notion of a collective approach to stakeholder participation in the development process.

2.4.1.1 CSR and stakeholder governance

The current increased concern for unethical corporate behaviour has bonded CSR and corporate governance into academic discussions and business agendas. Accordingly, Deetz (2007) stated that "both corporate governance and CSR have arisen from organisational failures and negative social consequences that appear to be systemic in nature" (p. 267). That is, as Deetz (2007) stipulates, organisational values and interest is driven by profit, which has always been in conflict with societal and environmental concern. Most corporations at some point have neglected societal concerns or issues affecting external stakeholders in their governance. In essence, managerial interest in the running of the organisation has taken precedence over external stakeholder interest. In response, Deetz (2007) showed that there are new approaches being introduced to look at CSR and governance issues: for example, stakeholder governance models which imply more ownership and participation from stakeholders through open dialogue, consultation and communicating issues, such as social, environmental and economic needs of the affected stakeholders (Deetz, 2007). Similarly, Oketch (2004) stated that "successful business strategy that contributes to social cohesion

is that which fosters integrity in internal governance while promoting positive engagement in communities in which they operate" (p. 5).

Oketch (2004) outlined a number of governance issues which most corporations or businesses have delved into, exploring and addressing them systematically. One is that corporations have increasingly recognised their external stakeholders; for example, employing them, training them and compensating them, and engaging them in activities that look beyond profit, such as community activities. In turn, such practices foster greater partnership, more community participation and community well-being. In addition, these new styles of governance and CSR practices seemingly embrace government regulations, while simultaneously creating an enabling environment for small and medium enterprises (SMEs) at the local or community level (Oketch, 2004). In essence, this study (Oketch, 2004) gives a comprehensive view or summary of a new style of governance from the perspective of CSR.

2.4.2   CSR as corporate philanthropy

Philanthropy is defined as a responsibility that promotes human welfare, such as through charitable giving, education, health and safety issues, and in being philanthropic the corporations build strong relationships with the community (Kim & Reber, 2008). This study revealed that the philanthropic role of the corporations is usually strictly tied to a program that has a short life span. As such, other studies (e.g., Diener & Seligman, 2004; Freeman & Velamuri, 2006) have noted that such corporate practices are not systematic and may not necessarily be within the policy decisions at the institutional levels: organisational, corporate and governmental. As Carroll (1991) and Trevino and Nelson (2011) stated, corporate philanthropy by definition is a discretionary duty from managers, and thus it is unlikely to be in policy goals of companies. In that, it raises a question for shareholders or owners of any profit maximising business: is it necessary for managers to engage in corporate philanthropic responsibilities and, if so, whose interest is business representing (Godfrey, 2005)? This question is legitimately a normative question that has generated theoretical arguments for quite some time (e.g., Berle, 1931, cited in Godfrey, 2005; Gao, Fatt, & Navissi, 2012). Increased efforts to draw a clear relationship between philanthropic responsibilities with corporate financial performance thus resulted in and invited substantial empirical

research over the years (e.g., Carroll, 1991). It is possible that Carroll's (1991) pyramid model of CSR best explains this relationship. According to Carroll's pyramid model, philanthropy is less important than other components of CSR, but it builds an important relationship or partnership between companies and its stakeholders. It may not necessarily be part of corporate policy objectives, but it is deemed important for settling differing interests, as well as being used as a negotiating strategy in development processes, particularly in mineral exploration in developing countries (Haman, 2003; Kirsch, 2004; Sagir, 2004).

Godfrey (2005) and Boehm (2005) maintain that there is an intrinsic relationship between philanthropy and shareholder wealth and corporate financial performance. Godfrey (2005) argued this based on three assertions. One is that philanthropy generates "moral capital" amongst society and stakeholders, which is morally rewarding for business; next, that moral capital insures business through a notion of partnership with communities in which business operates, and finally this contributes to shareholder wealth (Godfrey, 2005). A classic example demonstrating this relationship is the case of the Wenchuan earthquake in China (Gao et al., 2012). Using the case of this earthquake, Gao et al. (2012) assessed the level of relationship between corporate philanthropy and their financial bottom line and how this relationship is negotiated in such situations. This study revealed that corporate participation in a natural disaster leads to more consumer awareness of products, thus leading to increased demand and high financial returns for businesses that engaged in philanthropic activities. There is, therefore, a clear sign of favourable mutually deepening relationships between corporations and the customers (Gao et al., 2012). As such, philanthropy is now becoming an important marketing strategy that binds corporate activities, values and forms an important bargaining strategy in obtaining a "licence to operate" from society (Genest, 2005, p. 315).

2.5 Business ethics

Business ethics is a "set of moral principles by which conduct may be guided and judged" (Alan, 1988, p. 28; also see Jackson, 1996; Trevino & Nelson, 2011). The opposite of the word moral is immoral - they are inseparable. Therefore, violation of moral principles will inevitably lead to immorality, which is the same as committing "business sin" (Alan, 1988). Jackson (1996) and Trevino and Nelson

(2011) looked at the relationship between law and ethics. They showed that the existing law of a nation guides the behaviour and conduct of business practices. For example, government regulations set parameters for the legal responsibility for business practices. In a business context, government regulations or law becomes an ethical environment that shapes the conduct and operations of business. The strong ethical environment will positively influence business conduct, and vice versa. The looser the environment is, the greater the opportunity for unethical behaviour that leads to business sin (Alan, 1988).

Creyer (1997) showed that in business, ethical responsibility involves decision-making, and the decision then influences the behaviour that leads to an action. For example, if a company considers doing business in a country that has a corrupt government that promotes unethical practices, then the company is likely to make decisions between competitive advantage and ethical issues. If consumers see a particular company operating unethically, then it brings to customers a choice of decision-making on whether to buy the product from that company or not (Creyer, 1997). In this study, Creyer (1997) examined the issue of unethical corporate behaviour from the perspective of consumers. The study revealed that there is a relationship bond between consumer demand and the firm's ethical practices. Ethical behaviour in this context becomes a firm's reward from the perspective of the consumer (Creyer, 1997).

There are three approaches to ethical practices, identified in Cavanagh, Moberg and Velasquez (1981). One is a "utilitarian-based" approach, which values the judgement of the outcomes to justify the actions. The utilitarian philosophers, (e.g., Betham, 1789; Hobbes, 1651; Lock, 1690; Mill, 1863, as cited in Cavanagh et al., 1981) have stated that the judgement of any plans executed and or likely to be taken has to weigh against its outcome or consequences. The second is a rights-based approach: the notion of rights is tied to decision-making. That is where everyone has the right of freedom to do or not to do and so violation of this right leads to an idea of social justice, where one has to be compensated for one's rights. Last is the justice-based approach; using this ethical approach would mean equity, fairness and impartiality. That means the individual should be treated, administered and compensated fairly in any decision-making (Cavanagh et al., 1981; Hearit, 2007). These philosophical ideas may or may not necessarily be the

same in all contexts, as Donaldson and Dunfee (1994) argued. In the business context, for example, they stated that "utilitarian merely advises the manager to choose among the many alternatives, to the future of the welfare of the people" (p. 255; also see Trevino & Nelson, 2011). According to Trevino and Nelson (2011) utilitarianism is best known for its consequential approach to issues. What matters for consequentialists is the net balance of good consequences over bad, and that has to be good for all society. Earlier writers such as Emmanuel Kant, who wrote about "categorical imperative," stated that it is the motives and intentions that influence organisational behaviour, which are categorised under deontological theory (Hanson, 2003; Tench & Yeomans, 2011). What is obvious from these philosophical ideas is that even if everyone has a *prima facie* moral right not to be exposed to potential risk posed by corporate activities, an alternative approach taken by corporations can be justifiable. In other words, even if corporate actions or activities are morally unethical, what appears important is that the end has to justify the means. The theory of utilitarianism states that common good has to be achieved at all cost of any action taken for the good of all society (Cavanagh et al., 1981). The other side of the idea of compensation payment and CSR, as debated in recent times, is that it is becoming seen more as a legal liability to corporations (Hearit, 2007). A classic case is that of Broken Hill Property Limited (BHP Billiton, Australia) and Ok Tedi mining, Papua New Guinea (Johnston & Jorgensen, 1994; Kirsch, 2004; Low & Gleeson, 1998). In the first case, BHP compensated huge amounts of money, or 50 per cent of its revenue, to local landowners because of its unethical approach to riverine tailings and dumping into local river system of unspecified chemical hazards. The compensation was made in response to a transnational legal battle taken up by locals and international pressure exerted on them by global communities (Kirsch, 2004; Low & Gleeson, 1998).

One reason for the idea of compensation and social rights, as Sherwin (1983) stated, is that business itself is a complete system that is made up of its values as defined by its owners, but the public or consumers and government regulations that seek moral obligations from the firm may also shape the way business operates. As such, an approach to business ethics is also systematic and found within business itself as well as from wider stakeholders, such as government and public (Sherwin, 1983). Seeing it from a different perspective but on the same line

of discussion, Donaldson and Dunfee (1994) discussed such an interconnected approach to business ethics as a "…unified concept of business ethics" (p. 252), and Donaldson and Dunfee (2002) looked at this as the "tie that binds in business ethics" (p. 1853). According to these studies (Donaldson & Dunfee, 1994; 2002), business ethics is built on the idea of social contract. For example, Donaldson and Dunfee (2002) stated that in business, ethics brings to us an understanding of "'contracts' that bind industries, companies, and economic systems into communities" (p. 1853).

2.5.1 Social contract theory

There is no exception that business operates in a society through a social contract that requires business meeting its moral obligations, such as providing social services to the community and broadly meeting its economic responsibilities (Shocker & Sethi, 1974, as cited in Reynolds & Yuthas, 2008).

Social contract is an essential part of ethical business practices, being debated and discussed within both the public and private sectors. However, one issue is that there has been a misunderstanding in overlap of duties between state and business, as to how the interest of society is served (L'Etang, 2009). According to L'Etang (2009), the relationship between social contract theory and CSR is not straightforward, because there is a conflict of rights and expectations of citizens with overlapping duties of business and state intervention. L'Etang's (2009) argument is based on the point that there is a significant degree of difference between state and societal contract and business, because society (citizens) votes for government and not for business leaders. In fact, Horton (1992) showed that the idea of social contract theory was a traditional relationship found between state and society, which was formed on the basis of the idea of "fair-play" and "political obligations" grounded on mutual understanding and reciprocal relationships. That is, one has to consent to handing its rights over to another, and in this case, society voluntarily gives its right over to the state; thus, the state on the other hand becomes the custodian of societal rights and in turn performs its political obligations by way of providing services to society (Wolff, 2006).

However, state-society relations have changed over the years with increased business activities; as Jones (2002) stated, industrialisation and the process of

globalisation has initiated corporations or business into as an important part of this relationship. From a public relations perspective, adding business into state-society relations involves a complex relationship where the notion of CSR becomes an important strategy for issues' management between business, state and society (Roper, Collins, & Toledano, 2004). In this case, social contract, as seen it from the lens of theorists and political philosophers like John Lock (as cited in Wolff, 2006), involves a "voluntary" duty between state and society; thus, if the notion of voluntarism is applied to corporate CSR practices, then CSR could be seen as voluntary duty. That means, it may not necessarily be in policy goals or institutional frameworks of organisations, whether states or corporations. As such, other business scholars like Mostovicz and Kakabadse (2011) have pointed to "legitimacy" as an important ethical factor that is at the centre of issue management and relationship building between government, business and society. In this case, legitimacy defines a trust between these relationships. As Swanson (1999) pointed out, there is an intrinsic link between CSR and the concept of legitimacy and public good or social services; hence, corporations are legitimised on the condition that they meet societal expectations and simultaneously meet their social obligations. Thus, CSR can be seen as a voluntary contractual obligation that creates a need for business-community participation based on social contract theory (Boehm, 2005).

2.5.2 Legitimacy theory and social reporting

An increasing number of studies on social reporting or corporate information disclosure (e.g., Branco & Rodrigues, 2006; Guthrie & Parker, 1989; Hooghiemstra, 2000; O'Donovan, 2002) stated that legitimacy theory is one of the most probable theories in CSR reporting that advances corporate interest. According to Guthrie and Parker (1989), for example, legitimacy theory postulates that corporate reports are simultaneous reactive actions that respond to public criticism on environmental issues and legitimise corporate actions. For Branco and Rodrigues (2006), legitimacy theory suggests that social disclosure or reporting justifies the existence of organisations to society. Hooghiemstra (2000) stated that in reporting social responsibility, legitimacy theory is used to create a corporate image and corporate identity. Similarly, O'Donovan (2002) stated that social reporting that captures societal interest and meets its expectations could legitimise corporate actions and allows its (the company's) continuity.

It is acknowledged that legitimacy is conferred by the public or society (Elsbach, 1994). Therefore, information disclosure or social reporting is becoming important to companies as a way to "mediate, suppress, mystify, and transform social conflict" (Tinker & Neimark, 1987, p. 72). Consequently, this leads to a bias in views being expressed and unfair and less democratic processes in empowering community participation (Reynolds & Yuthas, 2008). This is because the more the public responsibilities are privatised, the more politicised the private is in its entire decision-making and the type of information it disseminates (Shamir, 2004). In fact, Giddens (1998) and Shamir (2004) showed that corporate dominance is a result of globalisation. In this globalised world, there has been a significant value shift or transfer of political, economic, financial powers and intellectual control away from "nations into de-politicised global space" (Giddens, 1998, p. 140). This effectively merges and entertains the interest of global corporations in the idea of a laissez-fare economy, which seems to influence the domestic political balance (Giddens, 1998).

Socially responsible reporting is broadly defined as the "process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large" (Gray, Owen, & Adams, 1996, p. 3). One word that best describes reporting is "accountability," and accountability in many senses implies comprehensive reporting that should involve a clear framework with clear goals of why corporations should be reporting, what approach they should be taking, and there should be clear indicators from the perspective of corporations with messages clearly communicated to the stakeholders (Bouten et al., 2011). In other words, if reporting is a strategic approach, then it should communicate with clarity so that it promotes credibility of message to stakeholders. As a chairman and CEO of Ketchum Public Relations Worldwide, Dobri once stated in his speech that global business organisations should make communication a credible global strategy and credibility should be borderless (Genest, 2005).

Reporting and communication in business implies potential risk, legitimacy and issue management (Knight, 2007). The notions of risk, issues and legitimacy are an embedded part of corporation and stakeholder relations, which are based on the

idea of demand and give and take. For example, the higher the demands from stakeholders, the more easily corporate reporting and issue management is accepted by corporations; and vice versa, the lesser the demand is, the more distant are corporations from the stakeholders (Tee, Roper, & Kearins, 2007). There are many reasons why companies are hesitant to comply with stakeholders' demands, but one in particular that is noted in Gray, Kouhy and Lavers (1995) is that CSR is not necessarily enshrined in corresponding company legislation in most countries. In other words, there is no clear institutional framework for CSR, from both government and corporations. This may or may not be relevant today because Gray et al.'s (1995) review of UK company reports over many decades has now been replaced with more modern standards of institutional frameworks of sustainability reporting (e.g., Bouten, Everaert, Liedekerke, Moor, & Chritiaens, 2011; Reynolds & Yuthas, 2008). As such, corporate social reporting is increasingly becoming an essential part of corporate moral discourses. That is, whether it is based on open democratic practices as enshrined in the principle of honesty, transparency and accountability practices or not, corporations are still disclosing their social practices using international reporting models or frameworks (Reynolds & Yuthas, 2008).

Reynolds and Yuthas (2008) have reviewed a number of models or frameworks of internationally established reporting institutions, such as the European Environmental Management and Audit (EMA), International Environmental Management Certificate (ISO, 14001), Social Accountability International Labour Standard (SA 14001), International Accountable Assurance Reporting Standard (AA 1000), the International standard involving stakeholder communications (Copenhagen Charter) and Global Reporting Initiative (GRI), for international sustainability reporting. Interestingly, the review of these reporting models has shown that there is an increase in corporate sustainability reporting at the international level using these models (also see Panayiotou & Aravosis, 2011).

The other side to it is that the use of international reporting frameworks could possibly present more of corporate views than those of their stakeholders, because they may want to legitimise their operations with regards to the environment and community, by, for example, reporting to international financial institutions to secure support from them in terms of loans (Reynolds & Yuthas, 2008). This is

because of the often-ignored local reporting standard in which business operates (Bouten et al., 2011). In this case, there is a possibility that corporate reporting is unlikely to represent wider stakeholders, and if so, such reporting may lack a local reporting framework and thus is likely to invite stakeholders' demands for corporate accountability. For example, the results of Bouten et al.'s (2008) assessment of European based corporations, particularly from Belgium, the United Kingdom and the Netherlands, have shown that reporting made without a locally guided framework has invited stakeholders' criticism, demanding corporate accountability.

2.6 Sustainability reporting: A triple bottom-line

The term sustainability, or sustainable development, is a needs-based concept, designed to deal with the issues of needs for the current generations without suggesting, proposing, imposing or planning for the future generation or simply letting them do it for themselves (WCED, 1987). The issue of need for the present generation is coined around three aspects, having economic, social and environmental needs, which are mutually benefitting and systematically balanced for all. This is exactly what Elkington (2001), who coined the idea of triple bottom line, has looked at it. While not only taking the conventional business approach to financial or economic reporting, Elkington also promoted corporate, social and environmental reporting as a legal part of business ethical responsibility. One of the challenges for business leaders was to merge their financial bottom line with a social and environmental bottom line (Elkington, 2001). However, it is compensated for with the current methods of reporting through Internet and web-based methods, because reports are still being viewed, whether they are accurately reported based on sustainable practices or not (Silberhorn & Warren, 2007). In the West, the North Americans and Europeans, who are well-known initiators of the concept of sustainability and triple bottom line, are taking the lead in doing reporting on their web-sites. For example, Silberhorn and Warren (2007), who have analysed CSR practices in European context, particularly looking at 40 British and Germany companies respectively, have shown all or almost all European businesses use the Internet or web-sites to do sustainability reporting.

However, Internet and web-based reporting methods appear to be biased towards the specific constituents, more than it is reporting to wider stakeholders. The question is how the message is communicated across the stakeholders using Internet and web-based methods. Often in web-based or Internet reporting methods, the style of communication is likely to be based on a one-way communication model, which is opposed to what Wheeler and Elkington's (2001) assertion that any negotiation process that is likely to lead to some kind of compromise or good decision-making must always be based on "two way dialogue" (p. 2). Wheeler and Elkington (2001) believe that in the context of business, two-way dialogue is an important pathway that leads to the creation of "trust" between corporations and stakeholders. Thus, in this sense, respect is mutually earned. The main argument in this study has not criticised or campaigned against corporate Internet and web-based reporting. The study has pointed out that it is unlikely that current methods of CSR reporting will reach wider stakeholders. The stakeholders, as defined earlier, are inclusively interrelated to any party, and that can either be customers, employees, the state or community, who affects or is affected by business operations (Trevino & Nelson, 2011). The interrelated nature of stakeholder means corporate reporting has to be contributed to, or be accessed by, these multiple stakeholders.

The notion of sustainable development is a multifaceted concept that involves different aspects of economic, social and environmental issues. However, Hart and Milstein (2003) argued that business managers have framed the idea not so much as a multi-dimensional concept, but rather they seem to be concentrating on regulations, cost and liabilities. Hart and Milstein's (2003) argument is based on the idea that although the notions of CSR and sustainability are defined differently, how one sees and interprets them into one's perspective is more important than how it is seen. In the context of business, they stated that if business views it with the business lens and interprets it by way of promoting the goal of sustainable development, this could simultaneously deliver the goals of triple bottom line goals: economic, social and environmental goals. Thus it could lead to the creation of sustainable value for firms.

In business, some of the most asked questions are: what is business for; in whose interest is the company acting; and how should the business be operating? These

questions are important ethical questions that are often asked when looking at the issues in business ethics, such as social and environmental concerns and stakeholder relations, or to address triple bottom line. One of the recent frameworks developed to cater for such questions is "corporate governance," or "governance for sustainability" (Elkington, 2006, p. 522). The idea of triple bottom line is best expressed in the governance for sustainability framework. With continuous changes of the ideas and activities, many activities overlap each other and so corporate governance provides a framework that takes stock of activities and provides holistic accountable reporting of economic, social and environmental sustainability (Elkington, 2006). As Deetz (2007) stated, "corporate governance … [provides] a synergistic relation between CSR and economic viability" (p. 267). According to Deetz (2007), the ideas of CSR and corporate governance are important, especially with increasing organisational failure and systematic distortion of social and economic development as well as concern on how to guide environmentally sustainable practices.

At the close of 1990, public concern regarding environmental problems was quite high, and many multinational corporations came under strong public criticism regarding their environmental accountability and social responsibilities. One example of such is the public criticism on the proposed sinking by Shell of the redundant Brent Spar oil platform in the North Sea, in the close of 1990s (Dunphy et al., 2007). Another example is the case of Nike's criticism for their abuse of labourers (Knight, 2007); similarly, Monsanto was castigated when it failed to address issues affecting its stakeholders (Dunphy et al., 2007). Similar cases are those of Papua New Guinea's Bougainville copper mine catastrophe in the 1980s, and the Ok Tedi mine debacles of the 1990s (Imbun, 2007). Most of these concerns or issues came about largely due to corporations turning a blind eye to the governance of external stakeholder issues, which have created social instability across the globe. However, Oketch (2004), drawing on the idea of "corporate governance," specifies that only if corporations are able to allow external stakeholders' interest into corporate boardroom discussions is there then social cohesion (also see Deetz, 2007).

It is clear from the literature that discussions and practices of CSR are centred on social, economic and environmental issues and the need of having development

that is more systematically balanced and sustainable; thus, the idea of CSR was discussed and it was found that while it might mean the same thing (to all parties) it was reflected differently. In that, the meaning of the concept of CSR remains blurry with no one definition, but a number of approaches and responsibilities were used to describe it. This section, therefore, based on the discussions above, provides an analysis of a CSR model based on the work of Carroll (1991). As identified and briefly discussed earlier, there are the four main responsibilities of business modelled into what is known as a "pyramid" of corporate social responsibilities (Carroll, 1991, 1999; Trevino & Nelson, 2011). The pyramid model summarises different aspects or approaches of CSR as multiple types of responsibility.

2.7 Framework: A CSR model
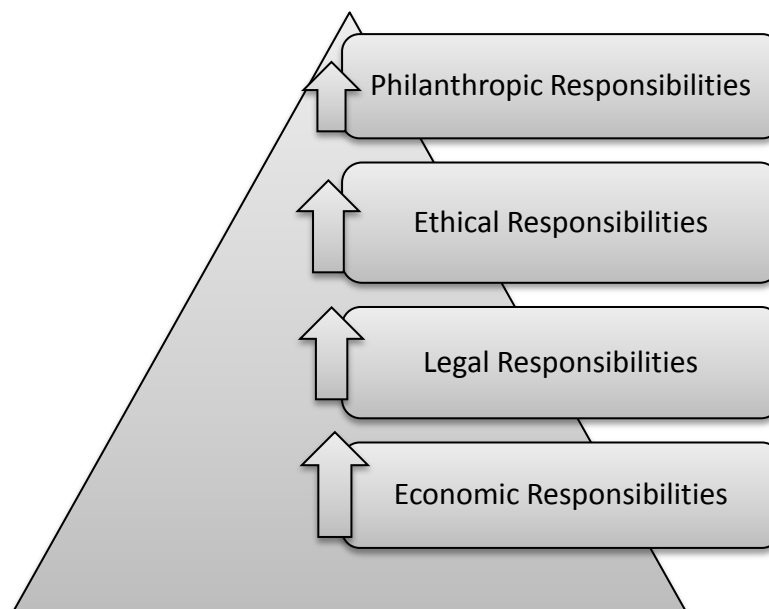
Figure 2: Pyramid of CSR model. Source: adapted from Carroll, 1991, p. 42

In Figure 2, the pyramid CSR model shows four main responsibilities of business as discussed earlier. At the base of the pyramid is the firms' economic responsibility. Next, going up by following the arrows, is legal responsibility, then ethical responsibilities, and right at the top of the pyramid is philanthropic responsibility. This model is analysed in a framework, as given in the table below.

Table 1: Framework: An analysis of CSR model

Corporate Responsibilities	Doing good and being good by meeting expectations and demands of stakeholders (government, community and other stakeholders)	Business Contributions/impact/influence /outcome	Opposing views and perspectives on CSR practices
Economic	• Provide goods and services • Meet customers' needs and wants • Produce products and meeting the needs of the society/customer • Create jobs and provide employment opportunities	• Vibrant economic development • Improved social livelihood	• Business Case – a financial bottom line • Capitalism versus social concern • Social and economic disparity
Legal	• Compliance • Contractual obligation/social contract • Stakeholder engagement • Meeting fiduciary obligation to business owners and external stakeholders	• Binding tie • Relationships • Obtained legal permission to operate • Compliance and continuity	• Laws may not cover all aspects of societal concern • Laws are unlikely to cover every aspect of organisational operations and effective participation • Meeting fiduciary obligation to business owners and external stakeholders
Ethical	• Keeping to social norms • Social concerns • Compliance in line with law	• Increase consumer demands • Maintain stakeholder interest • Social justice: right, just, fair • Compensation and royalty payments	
Philanthropic	• Infrastructure: - road - health -education • Charity • Compensation • Royalty payments • Community activities • Training programs/technical and management skills • Community services/human welfare/good/humanitarian programs	• Partnership: building stakeholder relations • Identity creation • Reputation/legitimacy • Business sustainability • Product advertising	• Attached to a short-lived programme • Voluntary/discretionary, at management discretion: Likely to be outside of policy and institutional framework-business and government • Promotes corporate culture/good will • Misalignment between business bottom line and social responsibilities, strategies and functions. • Social "license" to operate

2.8 An analysis of CSR model

An analysis of the given framework summarises the discussions of the literature around different concepts, theories and practices of CSR, discussed above, in four main themes: (1) economic responsibilities, (2) legal responsibilities, (3) ethical responsibilities, and (4) philanthropic responsibilities.

2.8.1 Economic responsibilities

The economic responsibility is a business moral responsibility, expected to be performed by business. That is, businesses are accepted on the grounds that they perform their economic responsibility, regardless of where or when they operate, and they are legally expected to contribute to economic development that is vibrant and sustainable (Trevino & Nelson, 2011). Goods and services are two important responsibilities that all businesses are expected to produce to meet customers' needs and wants (Carroll, 1991; Trevino & Nelson, 2011). In addition to this, businesses are also expected to contribute to economic development through producing products and services to meet the stakeholder demands (Carroll, 1991; Mersham et al., 2011; Tench & Yeomans, 2009; Trevino & Nelson, 2011). In discussing business economic responsibilities, the important concern raised is on achieving economic goals and addressing social concerns. This concern started in the early 1950s with the famous work of neoclassical economists like Milton Friedman, who stated that "the social responsibility of business is to increase its profit," versus the work of Howard R. Bowen, who introduced the idea of social concern in his seminal work, by looking at "social responsibility of businessman" (cited in Cheney et al., 2007, p. 5). These two are opposing views on which studies or discussions relating to CSR are founded. However, others (e.g., Trevino & Nelson, 2011) have pointed out the other side of Friedman's work, stating that Friedman's work not only promoted the notion of profitability but it also looked at legal and ethical responsibility of business. However, in line with Adam Smith's neoclassical theory, corporations believe that governmental regulations impede business financial objectives; that is, let market forces alone regulate themselves through the "invisible hand of market" (Ostas, 2001). Furthermore, neoclassical theorists believe that business and laws are two opposing parties with different views, as stated earlier.

It is clear from the literature (e.g., Ingley, 2008, cited in Mersham et al., 2009) that not all businesses or companies would want to keep to their financial bottom line, or they may not want to be distracted by social concerns from their primary responsibility, which is to make money for the business owners or shareholders. A survey of New Zealand's businesses by Ingley (2008, cited in Mersham et al., 2009) showed that some business were not easily distracted from their bottom line, while others used CSR as an innovative business strategy to create competitive advantage. In fact, when CSR was first defined by WBCSD (2001), it was seen as a commitment towards sustainable economic growth; however, it was not clearly defined. Instead, it was taken as a placard to promote the idea of sustainability, while keeping to financial bottom line. In that, we could say that current CSR practices may not necessarily be found in institutional agendas or policy goals of organisations, either government or businesses.

2.8.2 Legal responsibilities

As shown in Figure 2, the pyramid of social responsibility, in the pursuit of their economic responsibilities companies are required by law to comply with the rules and regulations of the host country (Carroll, 1991). In business ethics, there is an important relationship between law and ethics (Jackson, 1996). This relationship is important for two reasons. First is that law by itself may not necessarily cover all aspects of societal concern, and secondly, the law would not be able to cover every aspect of companies' operations (Mersham et al., 2009; Seeger & Hipfel, 2007). In this case, it could be argued that any policies or frameworks for CSR may be seen as voluntary or driven by events. As such, it is likely that most countries are likely to have no direct regulations to enforce CSR (Mersham et al., 2009). Even if organisations or companies claim to have CSR policies for their operations or there are government regulations to guide corporate behaviour, it is done voluntarily according to the situation. Thus, a voluntary approach to regulations is likely to be problematic and self-defeating because of the two reasons as stated earlier: first, it is unlikely that laws will cover all expectations of societal concerns, and secondly, laws might not necessarily cover all aspects of corporate operations.

There are a number of cases pointing out the weakness of law (e.g., see Seeger & Hipfel, 2007). One case is that of the Union Carbide Bhopal accident, and others

are Royal Dutch Shell, Exxon Mobil, Wal-Mart and many others, which were all castigated for serious inhuman and unethical behaviour but escaped with minimal legal penalty, leaving all restoration of social and environmental problems to the government of the host country. In PNG, most mining corporations face many challenges when it comes to defining their social responsibilities with local landowners, because laws such as the Mining Act 1992 or the Oil and Gas Act 1998 do not cover all social expectations.

In PNG, resource owners are made up of tribes and clans, and as they all own the land the law is unable to identify clearly the exact landowner, although Land Group Incorporation Act of 1974 (ILG Act) was revived in the recent past to address this problem. Some scholars see it as "legally constituted business entities," which are formed to channel royalty payments to local landowners (Sagir, 2004, p. 145). On the same note, critics in law, ethics and management communication (e.g., Seeger & Hipfel, 2007) refer to such practices as "fiduciary obligations of organisation to stockholders" (p. 163). Furthermore, they (Seeger & Hipfel, 2007) described fiduciary obligation as rooted in the idea of a "separate realms model," which states that corporate compliance may mean complying with the requirements of its stakeholders or owners' requirements to make money. In that, CSR can be seen as a function of law. Conversely, law can be seen as a function of CSR (Ostas, 2001); for example, by law companies being required to comply, and in doing so they legitimise their position (e.g., Reynolds & Yuths, 2008). As discussed above, one of the functions of law is to make businesses accountable for their environmental practices and community relations in reporting CSR to external stakeholders (Reynolds & Yuthas, 2008).

2.8.3 Ethical responsibilities

Ethics, as defined earlier, is a set of moral principles that guides business behaviour and conduct (Allan, 1988). Moral principles are guided by existing laws of the nation in which businesses or corporations operate. However, ethics look beyond where the law is and focus on societal norms, standards, concerns and expectations that give values to the society and in turn influence the extent to which law is formulated (Carroll, 1991). Although there is an intrinsic relationship between law and business ethics, what is important is how this relationship is managed. This relationship can be managed using three approaches,

as discussed earlier in Cavanagh et al. (1981). The three approaches are the utilitarian approach, rights approach and justice approach. Even laws may not fully codify social values; for example, in PNG, people live in clans and tribes and their social values are spiritual and are attached to the land on which exploration is made. Land is seen as a human being that provides for their needs; therefore, destruction and pollution of land and rivers by mining and petroleum companies is considered as "rape" of another human being (Kirsch, 2004). The laws such as the Mining Act 1992, Oil and Gas Act 1998, and ILG Act, are seemingly unable to cater for this. In this case, the three approaches to ethical practices- "utilitarian," "rights" and "justice" - remain important ethical approaches that bring un-codified social expectations and values, as given in the case of PNG, into three important sustainability concerns: economic, social and environmental. As Tench and Yeomans (2009) noted, the ethical duty of companies is to address environmental considerations, social issues like health and education and participate in economic development that is "right, just and fair" (p. 106). According to the theory of utilitarianism, "rights," "justice" and "utilitarian" approaches justify business practices; even if the approach taken by businesses or corporations are by nature unethical, the outcome must be just, fair, impartial and good for all society (Cavanagh, 1981). In other words, the outcome or the end has to justify the means. Thus, one practice that justifies the utilitarianism approach is the idea of "compensation" and "royalty payment." That involves bringing justice and making developments that are fair, which means affected communities have to be compensated (Cavanagh, 1981). Also, ethical practices as such can maintain stakeholder interest and increase consumer demand. As stated earlier by Creyer (1997), there is an important relationship between consumer demand and firms' ethical practices. For example, in the early 1990s, Nike was recognised and accepted as a global supplier of sportswear. However, towards the late 1990s its popularity dropped because many people decided not to buy Nike's products, and this was largely a result of public dissatisfaction with Nike's unethical approach to its labourers (Knight, 2007). In this case, it is clear that ethics or ethical practices influence consumers' choice and purchasing power and companies' continuity.

2.8.4 Philanthropic responsibilities

In the order of the CSR pyramid, as shown in Figure 2, philanthropic responsibility is the least important responsibility. As such, it is often seen in

terms of managerial or discretionary activities, and thus it may not be necessarily be included in policy goals and institutional frameworks of organisations, whether corporate or government (e.g., Diener & Seligman, 2004).

However, today, philanthropy is becoming important in terms of building "partnerships" and stakeholder relations, identity creation, image reputation and advertising of products. Van Riel and Balmer (1997, as cited in Heikkurinen, 2011) pointed out that corporate identity is a strategic issue for any organisation, because corporations or businesses' relationships with their stakeholders are influenced or determined by their identity and image reputation. Good reputation and positive image give corporations a "license to operate" (Genest, 2005). Charitable duties, infrastructural development such as roads and bridges, building health centres, education, training and development, royalty payments, compensation and community activities, are important philanthropic activities (Kim & Reber, 2008; Tench & Yeomans, 2009).

It is worth noting that although philanthropic activities are much less important than other three (Carroll, 1991; Trevino & Nelson), it is important in a sense that it brings in the idea of "partnership" or "stakeholder relations." In other words, philanthropic responsibilities become a vehicle that drives forward goals of economic responsibilities, legal responsibilities and ethical responsibilities. For example, in one of its quarterly reports on social and environment practices, Esso Highlands, a subsidiary company to Exxon Mobil and an operator of PNG's liquefied natural gas, stated "… we are supporting local communities by developing partnerships that focus on education, health and capacity building" (PNGLNG report, 2011, p. x). In this report, it is believed that education is a key to economic development, which means that when more people are educated there are more chances of getting employed, thus contributing to economic development; and vice versa, healthy populations participate effectively and contribute to economic development (PNGLNG report, 2011). There is a question raised in the idea of building business-community partnership and participation (e.g., Boehm, 2005), because often businesses would ask how participation, such as that of philanthropic responsibilities, contributes to business bottom line. Similarly, communities are likely to question corporate participation in social or philanthropic responsibility as to whose interest CSR is in. Despite of all these,

research has found that there are deepening relationships between corporate philanthropic responsibilities and the financial bottom line (Gao et al., 2012). As discussed earlier, Gao et al. (2012), using a case of the Wenchuan earthquake in China, showed that those companies who have voluntarily taken initiatives to help victims of natural disasters have in turn increased their product advertising, leading to more consumer demand and high stock returns (Gao et al., 2012). To this end, however, it is clear that philanthropy is not necessarily part of organisations' policy goals or frameworks. Thus it can be seen as more situational, attached to events such as natural disasters and calamities that increase the risk to society as well as companies economic goals. Based on different views given on philanthropic responsibilities, it could be argued that if there is an overlap of corporate CSR practices and its financial bottom line, then there is the possibility of having misaligned business bottom line with social responsibility strategies and functions.

2.9   Summary

In this literature review, different concepts and theories constituting CSR practices were explored. The general consensus drawn from the literature is that there is no one specific definition of CSR (e.g., Carroll, 1991, 1999; Dahlsrub, 2008; Mersham, et al., 2009; Tench & Yeomans, 2009). Different words are used instead; for example, words like stakeholder, philanthropy are used to explain CSR. Often definitions and practices are potentially influenced by contextual situations or the specificity of the locality in which businesses operate (e.g., Imbun, 2007; Silberhorn and Warren, 2007). Although some practices or approaches might not be systematically implemented in line with companies' goals, there is a possibility of strong influence from local expectations and demands (Imbun, 2007).

In some contexts corporate philanthropic activities (e.g., Gao et al., 2012; Imbun, 2007) are more important for many reasons. One is that corporations have used the situations to construct their CSR activities to suit the situation and simultaneously create a corporate image and build stakeholder relations. Furthermore, there is a lower possibility for companies to have their operations' strategy and reports in line with local reporting framework. Most of the frameworks or models of reporting, as revealed in this review, are internationally

established and recognised, as discussed by Reynolds and Yuthas (2008). This also raised issues of how international models or frameworks of reporting are used to effectively communicate messages across to the wider stakeholders or what the framework of reporting in a specific context or locality is (Bouten et al., 2011). This review was aimed at identifying the main themes and approaches to CSR that can be used to explore the realities of CSR practices in PNG.

CHAPTER 3   METHODOLOGY and METHODS

The study takes an interpretive approach using a qualitative research methodology involving case study method and associated exploratory research (e.g., Stake, 2010). Stake (2010) says qualitative research and the interpretive approach are synonymous, because qualitative research is sometimes referred to as interpretive research. In interpretive studies, an investigator explores in detail participants' lifeworld, personal experiences, concerns, views or accounts of some kinds of practices or events, which are explored through a case study approach (e.g., Yin, 1984, 2003) to interpret meaning out of data (Stake, 2010).

In qualitative research, an investigator collects data, for example through semi-structured or open-ended interviews and document review, by interacting with participants, and data collected are interpretively analysed to make meaning (e.g., Bryman, 2004; Ghauri & Gronhaug, 2010; Miles & Huberman, 1994). Importantly, by taking the qualitative approach, this study sought to explore participants' views, understanding, practices and activities in more depth to provide a descriptive and detailed account of a social phenomenon (e.g., Bryman, 2004), in this case, CSR practices. Another reason for taking a qualitative approach was to interpretively provide a well-grounded, more descriptive explanation of issues to give rich answers to research questions (Miles & Hubermann, 1994). One desirable method that explores participants' in-depth knowledge to provide rich answers about a particular issue is the case study (Yin, 1984, 2003). The case study method is desirable, because it helps in exploring complex social phenomena or issues where an investigator has little or no control over that particular situation or circumstances (Yin, 1984).

Case study can be defined as a "methodology that is used to explore a single phenomenon (the case) in a natural setting using a variety of methods to obtain in-depth knowledge" (Collis & Hussey, 2009, p. 82). Naturally, it associates with exploratory research involving data collection, which can be in different settings; for example, personal interviews, observations and verbal reports in an organisation, organisational financial reports, market and competition reports in business, or archive retrieval and operational statement for organisations (Ghauri

& Gronhaug, 2002, 2010). A case study means a single unit of analysis of a whole or a representative study; for example, it can be an event, a group of people or an organisation (Yin, 1984, 2003; Ghauri & Gronhaug, 2010). In this study, the InterOil Corporation is a single unit of analysis used towards an understanding of the concept of corporate social responsibility practices in PNG. The analysis of InterOil's CSR practices was through interviews, annual reports, as well as key documents such as the Oil and Gas Act (1998) and the Environmental Act (2000). The approach to data analysis is thematic (e.g., Braun & Clarke, 2008; Owen, 1985; Ryan & Bernard, 2003). Owen (1985) says that themes are usually identified through recurrence and repetition of words. The importance of using themes is that the themes help break a large amount of data into a more manageable amount for analysis, especially data collected through case study (Ryan & Bernard, 2003). Thus, thematic analysis and case study are compatible, especially in an analysis of the wider scope of data (Ryan & Bernard, 2003).

In this study, the themes were identified using an inductive approach (e.g., Saunders, Levis, & Thorn, 2007). In inductive theory, Saunders et al. (2007) state that if we take an inductive approach to our analysis, the themes identified are strongly linked or have to come from data itself and are not necessarily influenced by the theoretical model or literature. If themes are driven by theoretical understanding and past experiences, then, Braun and Clarke (2008) argue, it becomes theoretical thematic analysis, purely influenced by literature or theoretical frameworks. Thus, data analysed would be a descriptive or surface analysis (Braun & Clarke, 2008). In contrast, Burr (1995) argues, if data is interpretively analysed based on the themes from the data itself, then it goes beyond the description and captures the meaning of particular phenomena being studied so that reality is constructed based on the experiences and practices of participants themselves in a specific context.

However, others (e.g., Boyatzis, 1998; Braun & Clarke, 2008; Ryan & Bernard, 2003) argue that taking an inductive or interpretive approach to data analysis does not necessarily mean that an investigator is free from his or her analytical interest to his or her theoretical commitment. As Boyatzis (1998) stipulates, an investigator analyses the data collected interpretively by going beyond the obvious meaning and interpreting participants' views and experiences about social

phenomena being investigated and theorises the meaning to establish relationships with his or her analytical interest (also see Braun & Clarke, 2008). For this study, the data were analysed interpretively; that is, themes were identified and analysed by constantly moving back and forth between all interview transcripts (e.g., Ryan & Bernard, 2003; Owen, 1985). In line with literature discussed (e.g., Boyatzis, 1998; Braun & Clarke, 2008; Ryan & Bernard, 2003), I was also mindful of my analytical interest to theoretical frameworks constituting CSR practices, not because I wanted to analyse data using the theoretical approach of analysis but because I basically intended to explore from participants' perspectives about how they construct or define and articulate CSR, then discuss participants' views from data in light of theoretical models of CSR or relevant literature.

3.1   Methods used

The main methods that were used in this study to collect data are: (1) semi-structured interviews, including open-ended questions, to elicit in depth responses from participants, and, (2) analysis of official documents (Oil & Gas Act 1998; Environmental Act 2000), the company's annual reports and interview transcripts. The main aim was to capture the views and understandings of the managers and employees of InterOil Corporation about corporate social responsibility practices. Specifically, the study sought to explore the level of understanding in corporations about the concept of CSR. That involves how they construct, interpret and articulate CSR in the Oil and Gas Project. Also, equally important is that the study sought to see how the definition or the interpretation of CSR would have an impact on the stakeholders and the productive engagement of them (stakeholders). The research was mainly focused on participants from the Community Affairs section of the InterOil Corporation. The research was based in Port Moresby, the capital of PNG. The first point of contact was the Community Affairs (CA) manager. To follow the university's prescribed procedures for ethical research, a written letter was sent to the CA manager or a contact person while I was at the University of Waikato. In the letter, a brief background and the importance of the study was explained, permission to conduct this research was sought and the timeframe of data collection was stated. Also in the letter, the CA manager or a contact person was asked to select a number of participants, especially those who could speak, read and write English. A week later, an email was sent to the CA manager, a follow-up on the letter. Email and cell-phone was used as a means of

conversation to follow up, as well as it being used to arrange interviews with the contact person. Three groups of people were selected from community affairs section:

(1) Managers- community affairs divisional managers
(2) Team leaders from NapaNapa Oil Refinery and Wabo petroleum development licence area (PDL), Gulf province and,
(3) Employees - those who are based in the central business district (CBD-Port Moresby).

The participants selected were both, male and female, and this is done in order to disqualify gender barriers. The CA section was selected to work with because of the direct contact and working relationships they have with the community and other relevant government agencies. Another reason for selecting the community affairs section is that they deal directly with matters relating to the company's (IOC) social responsibilities to the local landowners and communities at Wabo oil exploration sites and NapaNapa oil refinery sites.

The interviews were conducted primarily in English, but to some extent "Tok Pisin" (Melanesian Pidgin) was used, especially with locals, and later translated into English. In addition, the research also undertook an analysis of relevant legislation, such as the Oil and Gas Act 1998.

3.1.1 Semi-structured interviews

Semi-structured interviews involve probing to explore participants' in-depth knowledge on something; for example, it may be confidential companies' practices or issues which they may have reluctance to discuss in the first place (Collis & Hussey, 2009). For this study, participants' views and understanding were explored to interpret CSR practices in oil and gas projects.

Eight participants from the CA section were interviewed. From these, three were community affairs divisional managers, mostly expatriates. The other three were team leaders/project coordinators from oil production and exploration sites respectively, and two others were employees, with one being stationed at the base with the community relations section and the other at an oil refinery site. Team

leaders and employees were all locals. The main issues raised were about the ownership and participation (i.e., landowner identification, consultation and agreements), access to the benefits (business development, employment, infrastructural development, school buildings, and training for locals, compensation and royalty payments) and the company's contributions to the economy (production and supply of oil and gas products).

An interview is a form of meeting, and it occurs within a confined place where there are face-to-face interactions between researcher (interviewer) and participants (interviewee) (Wilson, 2010). For this study, the interview was conducted at level 2 of Ravalien Haus, InterOil's office complex at Downtown, Port Moresby. The interview was conducted only when the participants were available, especially on break or when transiting to their respective provinces or countries of origin. Most interviews were conducted as one to one; however, at one point, a joint interview was made with two team leaders/coordinators from NapaNapa Oil Refinery and Wabo exploration sites.

Interview responses were captured using a digital recorder and a micro-cassette recorder. In addition, notes were also taken. The recorded interviews were transcribed later on the same day.

3.2 Data analysed

3.2.1 Interview analysis

All data were transcribed in English, and any Melanesian Pidgin was also transcribed and translated into English. Each participant was offered anonymity and the information provided was treated as confidential, by using pseudonyms. For example, for the pseudonym "A1," "A" represents the managers and "1" or "2" represent the number ascribed to successive interviewees. Similarly, for the pseudonyms "X1" or "X2," "X" represents the employees/team leaders and the numeral "1" or "2" stands for the number of employees/team leaders interviewed. Furthermore, at one point, there was a joint interview with employees/team leaders. For this, pseudonyms "JI-X1" and "JI-X2" were used, whereby "JI" stands for the initial of the word "Joint Interview," and the letter "X" represents an employee/team leader, and the numeral "2" represents the number of the

participant interviewed. In addition to this, participants were given consent forms (see appendix) at the beginning of interview to sign as part of the ethical process.

Each interview transcript was read many times to clearly identify major themes in line with activities, approaches or ideas that constitute CSR practices. The analysis of the interviews is presented in Chapter 4. The interviews were analysed using thematic analysis.

3.2.2 Document analysis

The main documents analysed in this study include the Oil and Gas Act (1998), the company's annual reports, and the Environmental Act (2000). The Oil and Gas Act (1998) was an important piece of legislation formulated to regulate oil and gas exploration. It was drafted to guide participation and distribution of resources between the company, the state, and local landowners.

The OGA (1998) spells out agreements and undertakings of each of these stakeholders. I closely examined the text of the nominated documents, noting carefully every instance where the main responsibilities of CSR - economic, legal, ethical and philanthropic - and related theories or approaches that formed the basis of theoretical framework in Chapter 2 were dealt with.

The two official documents (the Oil & Gas Act, 1998, and the Environmental Act, 2000) were commonly referred to in interviews, but the company did not provide me with copies. However, I obtained copies of both documents with permission from a lawyer friend. The documents on the company's annual reports were accessed through a publicly available web-site: www.interoil.com.pg.

A list and description of the documents that were examined are given in the Table 2. The table contain a brief description and details of data analysed. Detailed analysis of the data is in Chapter 4.

Table 2: Key documents presented for analysis (Oil & Gas Act, 1998)

Key issues - relevant to this study	Sections analysed
Ownership and participation	▪ Social mapping/landowner identification studies (Section 47) ▪ Development forum and consultation (Section 48 and Section 52) ▪ Development agreement (Section 50)
Access and benefit sharing	▪ Sharing of benefits amongst landowners, Local-level governments, Provincial Government (Section 170 and Section 172) ▪ Compensation payment (Section 118) ▪ Royalty/equity payment (Section 159, 165, 169)
Corporate obligations and compliance	▪ Domestic market obligation (Section 67) ▪ Exports of natural gas (Section 69) ▪ Compliance (Section 1)

3.3   Limitations of research

The time factor is a major issue for carrying out field research. It placed limitations on this study in allowing for a greater number of representatives. This is because a researcher does not own the time but relies on the organisation (IOC) or participants' availability. Interviews were made only when the participants were on a break and transiting through Port Moresby to their provinces or their country of origin. As a result, some of the participants assigned for interviews were not able to come for an interview. It would have been better if a greater number of participants' views were collected to give a good representative case.

A second limitation is the location of the organisation (InterOil Corporations). The project locations are in very remote areas, especially the exploration sites in Wabo, Gulf province. That means workers are routinely based on a fly-in-fly-out basis, mostly by planes. As a result, interviews were delayed. Also this might

have been the reason for some participants not being able to come for interviews on set dates. The limitations one and two discussed above present an obvious disadvantage to a case study approach. For example, Yin (1984, 2003) stated that a researcher or investigator has minimal or no control over actual behavioural events that occur in the field.

Another problem encountered is access to company documents such as memoranda of agreement and a copy of social mapping and landowner identification studies. These documents would have given more depth comparison against what was reported in interviews. At that time, the company had already completed social mapping and landowner identifications studies in Wabo exploration sites. Although it was requested formally through an email to two managers, they were reluctant to produce a copy because of the confidentiality of the documents.

3.4   Summary

This chapter has offered a methodological approach to this study. It has discussed main methods used, the approach to data analysed, descriptions of data analysed, and some limitations of this study were also discussed. The study took a qualitative approach involving a single case and associated exploratory research. The main approach to data analysis was thematic analysis, mainly involving the analysis of interviews and documents. The documents analysed were both from the company's (IOC) annual documents as well as official documents, such as the Oil   and   Gas   Act   (1998)   and   the   Environmental   Act (2000). Brief descriptions of data analysed were given in the Table 2.

CHAPTER 4 ANALYSIS: Key Documents and Interview Responses

4.1 Introduction

This chapter has two parts: one is document analysis and the other is an analysis of interview responses. The document section analyses the Oil and Gas Act, as well as InterOil annual reports, and will touch on the Environmental Act (2000) briefly. The purpose in doing this is to provide some contextual understanding of how these documents facilitate or capture the main aspects, responsibilities and approaches constituting CSR practices in the oil and gas industry. This chapter starts with an analysis of the Oil and Gas Act, which is then followed by the company's annual reports and the Environmental Act. It then turns to an analysis of interview responses.

4.2 Oil and Gas Act

In PNG, the Oil and Gas Act 1998 (OGA, 1998) is the most significant piece of legislation that regulates corporations in the petroleum industry. The aim of the legislation is comprehensive in that it typifies different interests and agendas of stakeholders, including the company, landowners and the state. The main issues which are relevant to this study are: (1) the issue of ownership and participation, (2) access and benefit sharing, and (3) corporate obligations. These issues form the basis of this analysis. In PNG, 97 per cent of land is customarily[1] owned. However, if the resources are found in any piece of land, either on the surface, in the ground, or under the water, it automatically becomes state property. In response to this, the OGA was formulated as an intervention strategy to address the issues pointed out, through the process of governing oil and gas exploration and the benefit that comes from the project. Yet, in large part, section 6 of the Oil and Gas Act stipulates that the state is still the principal owner of oil and gas, or any natural resources for that matter, but the major focus is that the Act promotes

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[1] The term "customarily," as stated above, means land that is owned or possessed by specific clans that make up a community by virtue of traditional rights and regulated by customs. The law recognises the corporate nature of customary groups and to allow them to hold, manage and deal with land in their customary names, particularly in business activities.

participation of landowners at the earliest point of intervention in the exploration for oil and gas.

Specific sections of OGA that talk about CSR were looked at, with particular reference to s.47 (Social mapping and landowner identification), s.48 and s.52 (Consultation and development forum), s.50 (Development agreement), s.170 (Sharing of benefits amongst project area landowners), s.172 (Sharing of benefits amongst affected local-level government and affected Provincial Governments), s.118 (Compensation payment) and s.159, s.165 and s.169, which all talk about royalty and equity benefits. Furthermore, other sections analysed are s.67, s.69 and s.1, which talk about compliance and corporate obligations to society. More specifically, the sections were grouped into three major themes or focus areas for analysis, as given in Table 3 below.

Table 3: A thematic analysis of the Oil and Gas Act

1. Ownership and participation
   - Social mapping/landowner identification studies (s.47)
   - Development forum and consultation (s.48 and s.52)
   - Development agreement (s.50)

2. Access and benefit sharing
   - Sharing of benefits amongst landowners, Local-level governments,
   - Provincial Government (s.170 and s.172
   - Compensation payments (s.118)
   - Royalty/equity payments (s.159, 165, s.169)

3. Corporate obligations, and compliance
   - Domestic market obligation (s.67)
   - Exports of natural gas (s.69)
   - Compliance (s.1)
   - Social mapping/landowner identification studies (s.47)

These themes and the specific sections are analysed in the following discussion.

4.2.1 Ownership and participation

In PNG, land and everything on it is owned and used according to a clan-based system. That means, hunting or gardening on different clan boundaries would lead to a tribal fight, killing and destruction of property. Each clan system forms a complex structure of a community.

Thus, it makes ideas of ownership and participation in oil and gas projects or any resource development become more complex. The challenge for oil and gas companies and the state is to identify the specific land owning clan out of many clans that form a community, so that there is clear ownership and participation. Section 47 of the Oil and Gas Act deals with this issue in which it imposes duty on companies to undertake social mapping and landowner identification studies. S.47 states:

> (1) Prior to first entry onto the license area for the purpose of exploration pursuant to a petroleum prospecting license or petroleum retention licence, licensee shall undertake (a) preliminary social mapping, and, (b) landowner identification study of customary landowners comprised in the license area with particular reference to exploration activities concentrating on:
>
> - The land within five kilometres of any facility which would be a dedicated project facility (other than a facility which would be situated on such a petroleum development licence) of the petroleum project; and
> - Other areas which would be affected by the petroleum project if developed. (Section 47 (4b-d & 5a-c), Oil & Gas Act, 1998, p. 42)

If we look closely at ownership and participation in decision-making as CSR, then it implies stakeholder engagement. The question is how are stakeholders engaged in oil and gas projects using law? S.47 specifies this clearly above, and it starts with the assessment of the project area and potential negative impact of the project through social mapping and landowner identification studies. The idea of social mapping reflects an understanding of ethical responsibility in CSR. The

main concern that informed the interview questions were: what would the company think about the idea of stakeholder engagement in oil and gas projects? Similarly, what would they (company) think about ethical practices such as environmental reporting and related social issues? These questions were explored using the case of InterOil Corporation and data collected were analysed in the next part.

Section 48 of the Act focuses on a consultation and development forum. It addresses different interests, agendas and issues affecting landowners, local-level governments and provincial governments, with matters pertaining to equity entitlement and project benefit, as stipulated in section 165 and subsequent sections, as espoused in Part IV of the Act. This section states:

> (1) The Minister shall convene a development forum at a place close to the proposed license area to provide ease of access, being a meeting to which are invited persons who, in the view of the Minister, will be affected by that petroleum project, including:
>
> - the applicant or intending applicant for the licence or licences; and
> - the project area landowners determined under Section 169(2) or their duly appointed or elected representatives; and
> - the Local-level Government or Governments who would be affected, Local-level Governments of the project if the application is granted; and
> - the Provincial Government or Governments who would be affected, Provincial Governments of the project if the application is granted; and
> - the State. (Section 48 (1) a-e, Oil & Gas Act, 1998)

The matters specified in the above sections (s.52 and s.48) about facilitating a development forum and having proper consultation with affected local-level government and provincial government in the petroleum license area reflect the consideration for a stakeholder approach to corporate social responsibility in the

Oil and Gas Project. Important questions that informed the interviews were: what would the company think about the consultation and development forum? Do they see it as CSR, or an approach that productively engages all stakeholders: the state, corporations and landowners? These questions were also explored using the case of InterOil Corporation and are analysed in the next part.

Part IV of the Act, constituted by sections 165, 167, 169, and 170, is about "State equity entitlement and project benefits." The sections stated specify that, for a company to carry out the project, a development forum must be conducted in the project area to determine how benefits from the project are accessed or shared amongst the affected stakeholders.

Furthermore, section 50, "Development agreement," states:

- An agreement between the State and any of the project area landowners, the affected Local-level Governments and the affected Provincial Government of a petroleum project governing the matters subject to agreement which are referred to in Part IV shall be contained in a development agreement. (Section 50 (1), Oil & Gas Act, 1998, p. 44)

This section talks about a development agreement, with matters pertaining to Part IV of the Act, with specific reference to the sections stated above (Ss. 165, 167, 169, and 170), which talk about reaching an agreement between developers or corporations, the state and affected landowners. Furthermore, an agreement specified in this section (s.50) on matters relating to Part IV, "State equity entitlement and project benefits," reflects an understanding of theories constituting CSR, such as social contract theory. In business ethics, agreements specified in Part IV of the Act, "State equity entitlement and project benefits," again reflect an understanding on the significance of any contract that binds corporations, the state, and landowners with entire economic systems into communities (e.g., see Donaldson & Dunfee, 2002). An important concern that informed interview questions is: do companies see such agreement specified in law as CSR, and if so, in what ways are such agreement defined and practiced?

This question was explored using the case of InterOil Corporation, and the data collected were analysed in the next part of this chapter.

4.2.2 Access and benefit sharing

In Part IV of the Act, "State equity entitlement and project benefits", s.165 (State equity entitlement) focuses on the agreement signed between corporations/developer, the state and local landowners about the benefits coming from that agreement. It states:

- The State has the right to acquire, directly or through a nominee, all or any part of a participating interest not exceeding 22.5% in each petroleum project. (Section 165, Oil & Gas Act, 1998, p. 119)

However, prior to s.165's "State equity entitlement" mention of 22.5% from all gas exploration areas, the state has to fulfil section 167, "Equity benefit," as part of the contractual obligation between the company and landowners. Section 167 specifically looks at an agreement prior to the commercialisation of oil and gas exploration, and this happens between the government and affected landowners. It states:

(1) The cost of:

- acquiring the participating interest in the petroleum project for the purposes of the equity benefit; and
- development attributable to that participating interest up until the commencement of commercial production of petroleum from that petroleum project shall be borne by the State. (Section 167 (2) a-b), Oil & Gas Act, 1998, p. 121)

The state's obligation to pay landowners their equity benefits, as specified in section 167, again reflects an understanding of social contract theory, which underpins social responsibilities. Social responsibility (SR) is not the same as CSR or (Corporate Social Responsibility). SR is built on traditional relationships between the state and society based on mutual understanding and consented agreement signed in line with the state's political obligation to society (see Horton,

1992). However, with the current increase in globalisation of corporations around the world, CSR is becoming an important strategy in the signing of the contract between the state, corporations and society. Section 169a discusses this in the next paragraph.

S.169a, "Identification of landowner-beneficiaries and sharing of benefits in relation to existing petroleum projects," focuses on corporate obligations. It states:

- The Minister shall consider any agreements by persons who are or claim to be project area landowners, the decisions of courts of Papua New Guinea as to ownership of land or rights in relation to land in the vicinity of the petroleum project in question, the results of social mapping and landowner identification studies that have been carried out in accordance with this Act, and submissions from affected Local-level Governments or affected Provincial Governments of the petroleum project in question or from any other person claiming an interest or to be affected by the decision of the Minister. (Section 169A (2), Oil & Gas Act, p. 123)

This section specifies that any agreement pertaining to benefits from petroleum (oil and gas) exploration be reached through the courts of PNG. The court determines the agreement based on the outcome of section 47 (Social mapping and landowner identification) and other submissions made by affected local-level governments and provincial governments. If agreement stated in s.169a is seen as a contract between the state, corporations and society, then it (s.169a) changes the idea of social contract theory to an essential aspect of corporate social responsibilities. If the idea of social contract is seen as corporate legal obligation, then, the question is: do corporations see this as CSR? This question was explored using the case of IOC.

Section 170 focuses on sharing project benefits amongst project area landowners. It states:

- Having considered the results of social mapping and landowner identification studies conducted in accordance with Section 47, some project area landowners have a greater or more substantial occupation

or right of occupation of the land referred to in the definition of "project area landowners" or are more adversely impacted by the petroleum project that other project area landowners, the Minister may, by instrument, determine that the sharing amongst project area landowners of equity benefits or royalty benefits in accordance with this section shall favour, on a per capita basis, those project area landowners who have that greater or more substantial occupation or right of occupation or are more adversely impacted by the petroleum project. (Section 170 (2 & 3), Oil & Gas Act, 1998, pp. 123-124)

Access and sharing of benefits based on specific agreements, as determined by the minister responsible, has again reiterated the idea of social contract theory in corporate social responsibility. Overall, the idea of contracts or agreements, landowner identification, social mapping and benefit sharing, and equity entitlements are all part of legal requirements which demand corporations' compliance in oil and gas exploration. That is, the legal requirements are important obligations that corporations must do to comply with the laws of PNG. In that, corporate compliance to laws such as the OGA forms the basis of legal aspects of corporate social responsibility in oil and gas projects. However, what do corporations think about it? Do they see it as CSR? Furthermore, benefit sharing implies relations, partnership or meaningful engagement between, companies, the state and landowners. The question is - what do corporations think about this or in what ways do they make or create meaningful participation and meaningfully engage with stakeholders, in relation to benefit sharing? These questions have informed interview questions, which were explored using case of InterOil Corporation and the data collected were analysed in the next part.

4.2.3 Corporate obligations and compliance

It is evident in the specific sections of the Act discussed above that the OGA has specified obligations for oil and gas corporations. One part of such obligation is specified in section 67, "Domestic market obligation," which states:

(1) The obligations of a person under this section are subjected to:

- the purchaser within a reasonable time offering to enter into an agreement containing commercial sale and purchase terms which are standard in the international petroleum industry,

including payment in a currency appropriate for that processed petroleum having regard to normal international industry standards at a place acceptable to the seller within a reasonable time after delivery; and

- prior *bona fide* contractual commitments of the seller in respect of the sale or consumption of such processed petroleum; and

- the reasonable requirements of the seller as to the timing of the disposal of his processed petroleum and the creditworthiness of the purchaser; and

- the seller being at liberty to sell his processed petroleum in Papua New Guinea for a higher price or on terms which objectively are preferable, and for that purpose to retain in Papua New Guinea that quantity of processed petroleum; and

- the seller being at liberty to use any processed petroleum required for his own operations. (Section 67 (5) a, Oil & Gas Act, 1998)

Section 67 forms the basis of economic aspects of CSR in oil and gas projects as well as broadly in the wider petroleum and mining industry. The bulleted points above capture the intentions of the state and the terms and conditions of the mining and petroleum industry. It states that petroleum companies must clearly demonstrate how they will supply oil and gas products within domestic markets. Again, production and supply of oil and gas within the PNG markets by this section (s.67) reflects a fundamental element of economic aspects of CSR in oil and gas projects.

Similarly, section 69, "Export of natural gas," provides clear evidence of economic transaction between the state (PNG), corporations and the potential buyers of oil and gas from off-shore. S.69 states:

(1) Natural gas shall only be exported from Papua New Guinea if permitted by

- the terms of a written agreement to which the State is a party; or

- a licence; or

- the Minister, by instrument. (Section 69 (1) a-c, Oil & Gas Act, 1998, p. 58)

The export of the natural gas from PNG as negotiated between the government and corporations by this section reflects the economic aspects of corporate social responsibilities. An important question for s.67 and s.69 is: if economic responsibility of corporations is defined in law, then what do corporations think about this, do they see complying with law as CSR, or do they see economic responsibility as part of legal obligations? Again, this question was explored using the case of IOC in oil and gas projects and the data collected are analysed in the next part.

Section 1, which requires corporate compliance to constitutional requirements, states:

> (1) The State or any other person exercising rights under this Act, [has to be] reasonably justified in a democratic society that has a proper regard for the rights and dignity of mankind, i.e.,
>
> - the disposal of waste material from operations for recovery or conveyance or processing of petroleum or petroleum products; and
> - the construction, maintenance or operation of facilities (including without limitation access roads, docks, ports, airports, marinas and accommodation) to be used by a licensee in connection with the prospecting for recovery, conveyance or processing of petroleum or petroleum products. (Section 1 (2) g-h, Oil & Gas Act, 1998, pp. 6-7)

Petroleum exploration based on democratic principles and justice, with consideration for the disposal of waste material and the construction and maintenance of roads, ports, docks and airstrips by this Act (s.69), reflects ethical and economic development or responsibilities governing the concept of corporate social responsibilities. Equally significant is section 47, which holds companies responsible for conducting proper community and environmental studies and identifying specific landowners to participate in oil and gas projects. Again, an important question is: do corporations see compliance as part of CSR? This question was explored using the case of InterOil and data collected are analysed in the next part.

4.3 Annual report documents

The purpose of analysing a company's annual report is to assess the position of the company (InterOil Corporation) about CSR practices. Analysing corporate annual documents can be a difficult task, because the style of language used by the companies may sometimes be difficult to interpret. However, a thematic approach can be used to identify text that talks about the area of interest (Ingram, 1978).

Table 4: Thematic analysis of the company's (InterOil Corporation) annual reports

Document analysed	Key CSR practices
Annual Report (2003)	• Comply with PNG's Oil and Gas Act in acquisition of petroleum operating licences, obtaining petroleum prospecting licence (PPL) and petroleum processing facility licence (PPFL) • Comply with Oil and Gas Act • We comply and report according to the World Bank's recommended standard • Received operating capital from PNG's financial institutions (Banks South Pacific and West-Pac, PNG Limited) • Bottom-up approach (Community engagement) • Water supply, improve health and living standard • Landowner identification • Recruitment • Facilitating and providing health and education services • Compensation to landowners
Annual Report 2004/2005	• Completed construction of petroleum refinery production facility • Sustainable operation of refinery, safe environmental practices • Complies with World Bank's recommended environmental standard • First production of crude oil supplied to domestic market (PNG) • Complies with PNG environmental law
Annual Report 2006/2007	• Supply refined crude oil product in PNG • Wholesale and retail distribution of petroleum product • Comply with PNG's environmental law

Annual Report 2008	• Environmental protection and community relations • Bottom-up planning and community relations, including: 　- Social mapping and landowner identification studies 　- Compensation payment 　- Local recruitment exercise
Annual Report 2009	• Legally IOC is obliged to refine products (jet fuel, gasoline, diesel and petroleum) sold to PNG's mining industries, airline companies (both domestic and overseas) and for retail household consumption • Operate to promote best environmental practices and effective community relations
Annual Report 2010	• Environment and community relations • Market and distribute refined products on domestic markets
Annual Report 2011	• Financial Reports (amount spent) - in line with International Financial Reporting Standard (IFRS) 　▪ Building confidence in financial shareholders and financial institutions 　▪ Corporate goodwill 　▪ Legal litigations • Environmental reporting in line the World Bank's recommended standard

In examining InterOil Corporation's annual reports, I initially focussed on specific areas that talk about CSR. I closely examined any text that relates to CSR. After examining the reports, a number of interesting points can be made in relation to the position of the company on CSR:

(1) Annual reports can be seen as part of compliance with the laws, or the reports are produced as evidence of the company's performance. This point is based on careful examination of the fact that the company's operations are governed and regulated by both international and PNG laws, such as the Oil and Gas Act (1998) and the Environmental Act (2000). Internationally, the company operates and reports according to the World Bank and International Financial and Environmental Reporting standards (Annual Report, 2003, 2004, 2005).

(2) The reports seem to have created a basis for interaction and participation between corporations, investors and wider financial stakeholders/shareholders (e.g., Annual Reports, 2011). However, such interaction between InterOil and its stakeholders/shareholders may not necessarily mean CSR because, reports reviewed seem to have provided important means by which the company has set out to project an image and build a reputation with its financial stakeholders, especially the financial institutions, both PNG and international financial institutions. On the other hand, non-financial stakeholders such as communities or local landowners of oil and gas project are also kept updated, but it is not clearly specified how they are updated. Although practices such as social mapping and landowner identification, compensation and employment opportunities was frequently referred to in the reports, situation on the ground (discussed below) seem to contradicts what is being reported.

Having pointed out these two points, it is apparent that the situation on the ground is different. Recently, most of the mining exploration in PNG has been forced to close indefinitely, largely due to landowners feeling that they have been cheated and denied access to ownership and participation by the government and multinational corporations. One such case was reported in PNG's *Post-Courier*, titled "Ok Tedi landowner upset" (2012, August 16). Another case is that of Wafi-Golfu landowners in Morobe province who felt that companies and the state were not keeping to their initial agreement on the payment of equity and royalty money to them (Nebas, 2012).

The case of the OK Tedi showed that landowners were dissatisfied, as most of the agreements were signed in Port Moresby (CBD) between the company, the state (PNG) and a few leaders who represent various clans, rather than signing it in the project area. Although s.48 of the OGA (1998) stated those landowners are to be represented by a duly elected MP or representative, it has never worked in many cases. These cases portray the realities of other mining and petroleum operations throughout the country.

Given these two cases, and in line with two points stated above, it is apparent that the main intention for corporate CSR reporting justifies the existence and

operations of company (e.g., Branco & Rodrigues, 2006) and simultaneously appear to meet the legitimate expectation and interest of its stakeholders (see O'Donovan, 2002), especially the financial institutions, to maintain its continuity. Another important point to note is that reporting CSR in such manner indicates an evidence of insecurity and reactive actions by company, in response to public criticisms on environmental issues (See Guthrie & Parker, 1989; Gilberthorpe & Banks, 2011). Furthermore, if what is reported and written about CSR fails to portray the actual practices, then it is a strategic approach to image creation and reputation building (see Hooghiemstra, 2000). Thus, there is a clear indication of corporate insecurity with regards to its operations. In that, such reports imply a need for transparent reporting of CSR at local level (PNG). This also indicates a need for sustainability reporting framework for locals, which is, so to speak, is clearly lacking at this point. Thus, the question is: what was the corporate (IOC's) intention to report CSR? And why do they report the way they do? These questions were explored through face-to-face interview with IOC's and data collected was analysed in section 4.4 of this chapter, and result was further discussed in chapter 5.

The key CSR practices listed in Table 4 are discussed under four main themes:
- Community relations,
- Production and marketing,
- Financial reports, and
- Social and environmental policy.

4.3.1 Community relations

Community relations are at the heart of the company's approach when engaging with local people, particularly the landowners. The concept used to engage with the community is bottom-up planning. The idea of bottom-up planning helps the company to plan its development programs, with consideration of community issues, needs and aspirations. An important approach (listed in Table 4) that the company (InterOil) takes to plan or to establish its community relations is through social mapping and landowner identification studies. Identification of landowners is important, and it forms that basis of ownership and participation. Furthermore, this helps the company to make compensation payments and create social stability amongst the community.

Consistent with the idea of bottom-up planning and community relations, the company performs its philanthropic responsibilities such as through providing health and medical services and recruits local people as part or full-time employees of the company.

4.3.2 Production and marketing

InterOil Corporation runs as an integrated business, comprising exploration of oil and gas, processing and refining of crude oil products and wholesaling as well as distributing petroleum (oil and gas) products in PNG. In annual reports analysed, purchasing behaviour of customers, especially the mining companies, airlines and businesses need for oil and gas products presented critical evidence of the need for petroleum (oil and gas) within the domestic markets. This has clearly formed the basis of the economic aspect of the company's CSR practices in the oil and gas industry. By law, the company is required to produce and supply petroleum products to domestic markets. An important question is: what would the company think about this, or define or see as their economic responsibility? This question was explored through personal interviews with IOC, and the data collected are analysed in the next part of this chapter.

4.3.3 Financial reports

Consistent with the discursive practice of presenting and disclosing corporate profit as a prime indicator of success to international financial institutions including the World Bank, IOC reports routinely cited legal litigation as major impediments to financial success. On the other hand, corporate equity payments and performing goodwill to communities was apparently associated with the company's assets. One reason for associating goodwill with the company's assets is that the company understands that by providing goodwill, such as the charitable giving of donations to communities around the project area, it helps establish good community relations and to avoid any disruptions to projects, so that the company continues to operate and make profit. This was apparent in consolidated financial reports of the years 2010 and 2011 (Annual Reports, 2010, 2011). Financial reports were an obvious means of interaction with the World Bank and International Financial Institutions. Financial reports are presented based on International Financial Reporting Standard (IFRS).

In annual reports analysed, what was reported gave a clear indication of the extent to which the senior executives have relayed information regarding the firm's economic progress and productivity to shareholders or business owners. It is revealed that through financial reporting, company (IOC), as much as possible, attempt to attract potential financial investors from international financial institutions (Annual Report, 2011). As such, the reporting behaviour of IOC can be seen as an approach to certain agreements or requirements. Thus, it may indicate compliance with the legal requirements of the international financial institutions (IFI), but it may not necessarily mean transparent reporting. As discussed earlier, the situation on the ground is always different from what is being reported. The questions are: what do they (IOC's or financial institutions) think about this? Do they see this as CSR? These questions informed the interviews and the questions were explored through face-to-face interviews with participants, and the data collected are analysed in section 4.4 of this chapter.

4.3.4 Social and environmental policy

Consistent with the point discussed in 4.3.1 (community relations) above, the company's social and environmental activities were routinely equated with the Environmental Act (2000) as a yardstick to measure against its social and environmental performance. As stated:

> We have not adopted any specific social or environmental policies that are fundamental to our operations. However, we are committed to comply with all laws and government regulations applicable to our activities … in full compliance with all applicable environmental laws. (Annual Reports, 2007, pp. 18-19)

This quote acknowledged that InterOil Corporation (IOC) lacks specific social or environmental policies in articulating their social responsibilities. However, as it might have been expected of them by the government, the World Bank or IFIs for that matter, IOC uses specific sections of laws as measures of legislative yardsticks to comply with PNG's environment requirements, as stipulated in the Environmental Act (2000).

4.3.5 Environmental Act (2000)

The Environment Act (2000) is the single most significant legislation that governs companies' environmental performance. The Act is aimed at regulating the environmental impact of development activities in order to promote development that is environmentally sustainable, economically feasible and socially friendly. I briefly analyse this Act with specific reference to Part II 4 (Objects and General Environmental Duties), Part II 5 (Matters of National Importance) and section 75 (Environmental Improvement Plans).

The formulation of the environmental Act integrates all the ideas of CSR and, broadly, sustainability in oil and gas projects. Specifically, it can be seen as a transformation in law to ensure that companies take a holistic approach to CSR in resource development. This is evident in two important objectives of the Act, captured in Part II 4. It states:

> (1) to require persons engaged in activities which have a harmful effect on the environment progressively to reduce or mitigate the impact of those effects as such reductions and mitigation become practicable through technology and economic developments; and

> (2) to regulate activities which may have a harmful effect on the environment in an open and transparent manner and ensure that consultation occurs in relation to decisions under this Act with persons and bodies who are likely to be affected by them. (Environmental Act 2000, Part II 4)

In rhetoric or from legal perspective, the two stated objectives of the Act propose a view that CSR or sustainable development could possibly be achieved through use of technology (see object 1) and through consulting with affected communities (objective 2). In reality, the stated objectives may not be achieved, and, in fact, it has never worked in many cases. Although, trust is on the use of appropriate technology, it effectively give companies permission to proceed with environmental degradation. Thus, the idea that CSR or sustainable development is possible through use of appropriate technology clearly remains unreliable. In fact, CSR or sustainable development are contestable ideas that seem to be a current "buzz word" (Munshi & Kurian, 2005) in this corporatized era, and at best

remains fragmented. Gilberthorpe and Banks (2011) says that an effort by multinational corporations to promote sustainable development or CSR in PNG's extractive industry is a strategic approach to project a positive image and to build reputation after a decade of bloody conflict and environmental destruction in Bougainville and Ok Tedi mine environmental disaster. As such, the concepts of CSR and sustainability or sustainable development are interchangeably used by corporations to make case suiting their interest.

In terms of CSR discussions, and in relation to two stated objectives, the fundamental principle that underpins CSR is multiple activities within a wide spectrum of responsibilities (Carroll, 1991; Trevino & Nelson, 2011), which are clearly captured in the two objectives of the Act. For example, in objective 1, all elements of corporate economic and ethical responsibilities, such as mitigation of social and environmental impacts, and economic development give a clear rhetoric position of CSR or, broadly, sustainable development in legal terms.

The approach to mitigating environmental impacts through appropriate technology and continuous consultation with affected communities, stated in the above objectives, implies that reporting of CSR or sustainable practices is required. Again, the question is: what do corporations think about CSR reporting? And how do they report what they do? These questions were explored using the case of InterOil Corporations in oil and gas projects and the data collected are analysed in the next part of this chapter. In addition, an approach to having consultation with affected parties reflects an important consideration of stakeholder engagement in oil and gas projects. Again, an important question remains: what do corporations think about stakeholder engagement? This question was also explored using the case of InterOil Corporation, and data collected are analysed in the next part. Specific ideas of stakeholder approach in oil and gas projects are possibly specified in Part II 5, "Matters of National Importance", which states:

- the preservation of Papua New Guinea traditional social structures;
- the recognition of the role of landowners in decision-making about the development of the resources on their land; and

responsible and sustainable economic development. (Environmental Act 2000, Part II 5)

If the above points were seen as approaches to corporate social responsibility, then the idea of stakeholder and ethical approaches to CSR would clearly be in evidence. The inclusion of PNG's traditional social structures and the recognition of the role of landowners in decision-making processes in resource development in the Oil and Gas Project would further signal an approach to CSR that is specifically tailored to local PNG needs.

4.3   Summary

The Oil and Gas Act (1998) outlines some fundaments aspects, approaches and theories related to corporate social responsibility. The Act clearly stipulates a need to have corporate social responsibility in resource development, particularly in oil and gas exploration in PNG.

Three issues which underpin the Act are the issues of (1) ownership and participation in resource development, (2) access and benefit sharing, and, (3) corporate obligation to wider society. The emphasis in ownership and participation was on ethical issues surrounding oil and gas exploration, the importance of the stakeholder approach and the significance of the social contract that binds all stakeholders in oil and gas exploration. Social contract or contractual obligation of the state and corporations was the main emphasis of access and benefit sharing, which requires business meeting its moral obligations, such as providing social services to the community and broadly meeting its ethical and economic responsibilities (e.g. Reynold & Yuthas, 2008; L'Etang, 2009). Also, society and business relations was discussed as important part of this contract, which is not necessarily as legal or based on formal contractual agreements but, often seen as a "voluntary" (Wolff, 2006) and on-going. As such, it is reasonable to rationalise that theories, approaches and activities constituting CSR practices were clearly evident in the Oil and Gas Act (1998).

Also, analysis of annual reports and the Environmental Act (2000) have pointed out some fundamental principles and approaches of CSR, such as corporate economic responsibilities, stakeholder engagement, and the need of having moral

and ethical responsibilities of CSR in oil and gas projects. Analysis of annual reports looked at corporate social relations, economic responsibilities and financial reports. The main focus of the reports is on financial reports, which was discursively presented to gain its (IOC) financial stakeholders attention. In addition, company also presented its economic responsibility such as production and marketing of oil and gas product. Overall, company's main focus of annual reports was, as much as possible to portray positive image and build reputation to its wider stakeholders, especially, financial stakeholders.

Analysis of the Environmental Act (EA 2000) presents a rhetoric or legislative position of CSR in mining and petroleum industries. The main focus was on achieving sustainable development, with a trust that technology and integration of tradition social structure such as clan-system would do better. However, in reality, specific sections of the Act (EA 2000) analysed, effectively give permission to corporations for more environment destructions. Thus, created more need for sustainable practices and reporting of it. As discussed earlier, often practice or reality contradicts what is being reported or written about CSR or, broadly, sustainable development. Thus, one question that remains important to this study is: how are corporations themselves defining or understanding CSR? This question was explored using the case of InterOil Corporation and data collected were analysed in the next section. I now turn to analysis of interviews.

4.4   Interview Responses

This section provides an analysis of interviews conducted with managers (Community Affairs Section) and team leaders/employees of InterOil Corporation (IOC). The main aim is to describe, analyse and comment on the themes which emerged from interview responses.

Table 5: Thematic analysis of interview responses, views and understanding on CSR

Management views	Team leaders/employees' views
Themes	Themes
• Defining CSR: CSR as part of managing negative and positive impact of projects	• Defining CSR as a foreign concept
• Production and marketing • Allocating benefits through clan-based umbrella company • Benefitting through business opportunities, jobs/employment opportunities and training • Compensation, royalties and benefit sharing	• Production and marketing • Allocating benefits through clan-based umbrella company • Benefitting through business opportunities, jobs/employment opportunities and training • Compensation, royalties and benefit sharing
• Signing of Memorandum of Agreement (MOA) • Compliance and continuity in business	• Signing of Memorandum of Agreement (MOA) • Compliance and continuity in business
• Stakeholder engagement • Consultation and development forum	• Stakeholder engagement • Consultation and development forum
• Increasing internal migration, alcoholism and HIVAIDS • Environment and reporting	• Increasing internal migration, alcoholism and HIVAIDS • Environment and reporting
• Community services and discretionary duties	• Community services and discretionary duties

4.4.1 CSR as part of managing the negative and positive impacts of projects, or CSR as a foreign concept

Out of three managers interviewed, two specified that CSR is about managing negative impacts of a project and increasing positive benefits of a project. As evidenced in the quote below, the negative impact implies moral obligations, such as social and environmental issues, whilst the positive benefit implies economic benefits, such as increased cash or employment opportunities, as well as other social benefits like health and educational training provided by companies to locals.

By their nature, both positive and negative impacts are seen to be inseparable. That is, the objective of one is achieved at the expense of another, (e.g., profit versus environment). For example, a company destroys the environment to make profits, and vice versa. The continuity of one would depend on fulfilling the needs and aspirations of the other. Managing these two impacts of the project, positive and negative, is considered as an important obligation. A quote from one of the managers commented:

> A1: To reduce negative impacts of the project, environmental and social impacts, to reduce them as much as possible and to maximise benefits from the development of a project like employment opportunities and monetary gain out of it and also benefit should come from social services, health, education, and infrastructures such as roads.

This participant clearly points out a concern that any businesses would have with regards to their operations with community obligations. The main issue commented on by A1 is about managing the negative impact and positive benefits of oil and gas projects. That is, the respondent commented that, as much as possible, the InterOil Corporation aims to reduce associated negative impacts of the project, such as social and environmental issues, while simultaneously increasing economic benefits such as increased cash through providing employment to affected communities. Participant also commented that as part of increasing benefits to affected communities, company (IOC) also performs its

philanthropic roles in providing social services such as health and educational training for the community where the project is situated.

Another one of the managers described:

> A3: Corporate social responsibility has a moral side of it but there's an economic side of it so that's the broad one with many responsibilities.

Consistent with the above quote (A1), respondent A3 described CSR as a concept that has two sides: one is moral and the other is economic. In addition, the participant also acknowledged that both sides cause CSR to remain a broad concept with many responsibilities. Again, the moral side of it implies issues or concerns that relate to social and environmental issues, whilst the economic side of it is a fundamental obligation for any business. Interestingly, the description of CSR given by these two respondents (A1 and A3) captures the fundamental principle underpinning the concept of CSR, which is that CSR is a multi-task concept constituting a wide spectrum of responsibilities (e.g., Carroll, 1991; Trevino & Nelson, 2011). Overall, the description given clearly captures or speaks of the understanding of the idea of CSR.

One of the employees commented:

> JI-X1: I'm conducting a CSR training, which is part of capacity building, as part of information dissemination to people, so they are aware. Because most projects are in rural areas almost everybody is not educated so CSR should be a foreign concept to them.

Information dissemination and awareness commented by this participant, imply a lack of understanding of the idea of CSR on the part of villagers. However, such lack of understanding of the concept itself may or may not be consistent with the practice, because these factors: economic development, stakeholder engagement, legal compliance and community services, given in Table 5, emerged as major themes. Furthermore, participant JI-X1 indicted that most of the projects are in rural areas where most of the resource landowners are unschooled. Perhaps this

could have been the major factor influencing their understanding on the idea of CSR. In the next part, I turn to analysis of economic responsibilities.

4.4.2 Production and marketing of oil and gas products

By law, businesses are required to contribute to the development of a community or the nation in which they operate (Carroll, 1991). This is often seen as a part of an agreement or a contract between the state and corporations. In the traditional idea of social contract theory, the state is the main actor in the nation's economic development and prosperity (e.g., see Horton, 1992; Wolff, 2006). This has changed over the years, with the process of globalisation and corporatisation; that is, corporations have become an important actor in economic development and prosperity of the nations. A team leader from NapaNapa InterOil production comments:

> JI-X2: Yes, by law and under the agreement with government, InterOil set up a refinery since, I think, 2000 or 1992 so it currently is refining most of its crude oil, and the products are sold throughout the country.

The participant (JI-X2) stipulates that production and marketing of oil and gas is part of an agreement, which is signed under the law. Furthermore, the participant showed that in fulfilling its agreement, the company is currently refining, producing and selling oil and gas products throughout PNG.
Another one of the managers commented:

> A1: Ah, as part of a legal agreement between us and government, we have been given 30 years to explore, refine crude oil and supply it within PNG.

Participant A1's comments reflect a view that economic responsibility is part of an agreement between government and the company. Furthermore, participant A1 commented that this agreement is legal or part of law. In essence, Ostas (2001) says that law becomes part of CSR and wise versa, CSR is part of law.

4.4.3 Allocating benefits through clan-based umbrella companies

Clan-based companies are one way of effectively engaging landowners at the earliest intervention in oil and gas projects. Also, consistent with the idea of increased positive economic benefits, the company uses the clan-based system to distribute economic benefits to the landowners. The following quote from a manager in InterOil Corporation's community affairs section conveys this:

> A3: We establish what they call a landowner umbrella company in the impacted area and that company is in joint venture with larger firms and then business spin-offs and dividends go to various clans using modern economics to share wealth and effective participation using traditional ways.

The idea of a landowner umbrella company, distribution of dividends, creating spin-off businesses and effective participation, as stated by this quote (A3), implies access and benefits, ownership and participation using traditional social structures. The main aim of business in promoting traditional structures such as a clan-based system in socio-economic development is to create good community relations, so that the business continues to operate, which is part of a legal requirement. One of the employees attempted to explain this as follows:

> X4: We build a good relationship within the resource owner community so that we have a relationship where we allow them to take ownership and appreciate this so when community takes part, the project becomes localised and that would help us continue operating in the area.

This participant (X4) commented that through umbrella companies landowners take ownership and participate in the project. Importantly, through this way, the company (IOC) establishes a good relationship with the project area community so that there is continuity in their operations. At this point, it is clear that CSR becomes meaningful to corporations and its stakeholders, particularly the landowners, through traditional social structures such as the clan-based system. Thus, it is reasonable to say that productive engagement of stakeholders is through established institutional structures such as the clan-based system.

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4.4.4 Benefitting through business opportunities, jobs/employment opportunities and training

The main issue or understanding around CSR is about reducing the negative impact of a project and increasing positive benefits of it. The idea of business development can be seen as a transformation of that understanding into practice. A participant was asked how they would use CSR to productively engage with community or landowners. The response was made in relation to increased benefits of projects and minimised negative impacts. A comment from one of the managers conveys this:

> A3: The idea of business development is to widen the benefit stream so that somebody benefits through the business either through providing employment or dividends, or it may be some project that the business is sponsoring in the villages because I suppose if you create a situation of haves and have nots, you create disharmony in the community so it's how you engage with them.

This participant commented that the main aim of business development is to widen economic benefits to the communities. Also, equally important is the idea of participation; that is reflected in the company's belief that by engaging with communities, associated issues or negative impacts that contribute to social disharmony, such as haves and have nots, could be minimised. The ideas of haves and have nots or social disharmony in this quote imply social inequalities. The main concern for the company (InterOil) is to reduce these inequalities.

The main concern or focus of the company is on specific landowners. That is, the company is more supportive or takes full responsibility takes full ownership in managing or setting up landowner businesses. However, for non-landowners, the company just provides the opportunity and assists them if they are willing. As one of the employees commented:

> X3: We take care of landowner spin-off businesses, but for those who want to do business, we also help.

Similarly, another one of the managers commented:

> A2: We have established business development up in PDL (Petroleum Development License area), landowners have formed a number of companies and we assist them to set up a number of businesses. We contract them and they have purchased a small barge which runs on the river.

The main focus of these two respondents (X3 and A2) is on landowners and their business dealings with them. Respondent X3 commented they take care of landowners' business opportunities. Also, the company helps if others want to do business. Respondent A2 is specific and clear on what they do with landowners in project areas. The business benefits given to the landowners can be seen as direct benefits, where there is interaction, consultation and ongoing monitoring by the company on behalf of landowners. Other form of direct benefits are benefits that respondent X3 was commenting on, but one that is available only on request. However, from respondents' responses, it is reasonable to say that the main focus of corporations is on immediate clans or landowners, on whose land the project is located.

As part of the company's aim to increase project benefits to local communities, InterOil Corporation creates jobs, provides employment opportunities and provides job training for locals. In that way, the company believes it would be able to increase economic opportunities at a community level. One respondent commented:

> JI-X2: InterOil recognises that there are communities that live around and so they have assisted in establishing a company and that company has assisted in recruiting local people that live around the refinery and they have engaged them in employment and it kind of increases cash economy at village level.

4.4.5 Compensation, royalties and benefit sharing

For obvious reasons, compensation, royalties and benefit sharing can be seen as a way to distribute economic benefits, but at some point they can also mean issues that the company must manage. In oil and gas, these three are part of an agreement signed between the state (PNG), corporation and landowners, and companies in oil and gas or any resource development have to follow the agreement. A community affairs manager commented:

> A1: All the time we are talking to the landowners and paying compensation and that could go on for 10 years, so it's a crazy thing but we've learnt many lessons from Bougainville. As I've said, the idea we've got is part of an agreement that if you give your land for a project you get a reward for that but sometimes royalties or equities can be paid when you have trespassed on other land areas.

This respondent commented that as part of an agreement they have to share the benefits from the project and compensate local landowners. In line with business ethics, the notion of compensation implies equity, fairness and impartiality (Cavanagh, 1981). Cavanagh (1981) says affected communities must be compensated in order to bring justice and equality and to maintain peace in society. Failure to bring justice to the affected community could lead to social conflict. For example, participant A1 commented that they (corporations) had learnt good lessons from Bougainville. In the Bougainville case, Rio Tinto and the PNG government failed to comply with the demands of local landowners for compensation for the destruction of their land, pollution of their river system, and environmental degradation, which led to a civil conflict and forced the closure of the Bougainville mine in 1989. Subsequently, benefit sharing and compensation has become more important in any resources development. One of the coordinators at a gas exploration site conveys this:

> JI-X1: I think not only compensating locals but as part of assisting government in their development plans and actual implementation of development, business should do this because when the businesses are in

harmony with the community then there is continuity of production and profit making for the company.

This participant (JI-X1) commented that compensating locals or assisting the government to implement its development program for the community is worth doing, because it builds harmony in the community and contributes to sustainability and profitability of the company (IOC). The participant JI-X1 believes that in order for corporations to create relationships with the community, they must first of all assist government to implement its development policies, programs and activities. In contrast to participant JI-X1, one of the community affairs managers commented:

A3: The other side of the coin is that a lot of money goes to governments, provincial and local governments' coffers in the form of royalties to offset that gap between haves and have nots by providing them with basic services like health and education and so forth; now that hasn't really worked.

This participant commented the company (IOC) pays royalty money to provincial and local governments in project areas, so that money could be used to provide basic services such as health and education for affected communities. According to respondent A3, that idea has not been working, because how the royalty money is used remains unknown. Also, an effort to minimise social inequalities (i.e., haves and have nots) by the company remains a problem. At this point, it is reasonable to say that the CSR programme breaks down when PNG government officials are given the task of benefit allocation. Thus a successful CSR programme requires the good will and intent of all stakeholders: corporations, government and society. Apparently, as commented by respondent A3, corporations pay royalties and expect the state to perform its constitutional obligation of service delivery. Yet government failed to do its part, consequently leading to an increase in social inequalities in the project area.

4.4.6 Signing of Memorandum of Agreement (MOA)

A MOA is an important document that must be signed for any resource development in PNG. The MOA is based on standard existing policies or legislation governing petroleum exploration, such as the Oil and Gas Act 1998. A MOA is an important document because it specifies the roles and responsibilities of stakeholders involved. It is a legally binding document that facilitates a stakeholder agreement on specific development, so any required responsibility stated in it has to be strictly followed. For example, if the MOA states that affected communities must be provided with road infrastructure, airstrips and schools, the government and petroleum companies will have to provide such assistance. They have to go by what is agreed in the MOA, and that illustrates compliance with legal requirements. A team leader/employee at Wabo oil field talks about an agreement signed as part of the MOA:

> JI-X1: MOA is signed between important stakeholders as part of the licensing process. In signing MOA, the company ensures the people impacted by project are catered for and benefit from the project is paid to them in the form of compensation. This is part of the benefit sharing agreement and development agreement like infrastructure development or roads and it is signed between various landowners, provincial government and local government at a forum on the type of development for communities.

In this quote (JI-X1), a number of undertakings that companies would engage in were clearly specified. The MOA specified that companies must compensate communities affected by the project. Also MOA outlines the people who the project benefits should be shared with. The MOA can be seen as a transformation of law towards CSR practices. It also implies a voluntary contract between the state, corporations and affected landowner communities (e.g., Horton, 1992; Wolff, 2006). Furthermore, respondent JI-X1 noted that the MOA is part of the legal permission or operating license. Legal permission implies a number of things: corporations are given autonomous status, so that there is a transfer of political power, economic responsibilities and transfer of intellectual property to corporations (e.g., see Chatterjee, 1999; Giddens, 1998).

4.4.7   Compliance and continuity in business

The successful companies are the ones who operate within the boundaries of the law. The reason being, the law provides directions and identifies specific stakeholders whom the company can focus on for its spending. One of InterOil Corporation's (IOC) community affairs managers commented:

> A1: We have to follow the laws of course. The Oil and Gas Act pretty well spells out who the stakeholders are and the Oil and Gas Act must ensure companies be given priority to take active role in the development forum.

This quote clearly indicates the position of the company (IOC). That is, the IOC understands that complying with PNG laws is part of their social responsibility. The Oil and Gas Act identifies the specific stakeholders with whom the company engages in oil and gas exploration. Furthermore, respondent A1 commented that the development forum is the main avenue that the stakeholders are engaged in.

Similarly, another one of IOC's community affairs managers commented:

> A3: The international finance company acts on commission as donors of the bank who lend a huge amount of money to companies and act as signatories and these banks are the ones who set rules on how we interact with local communities so they lend you the money on the basis that you follow those rules. We not only have our own policy but we follow broad policy, otherwise you don't get access to finance.

A clearer view of complying with law is given in this quote (A3). The law of course is set to govern companies' operations. The quote from respondent A3 implies that where there is law, there is compliance. This quote also provides reasons as to why companies must comply with the laws. One reason is that the companies comply because by complying, they have access to financial benefits; however, failure to comply leads to them being denied access to loans from international financial companies. As respondent A3 commented, they follow broad laws set by international financial institutions and are not necessarily

operating within the boundaries of their own IOC policies. Furthermore, another team leader/employee from Wabo's petroleum exploration site commented:

> JI-X1: The company has to comply with the State laws and agreements signed with the State, like MOA, and at the same time it has to satisfy the local landowners so in that way there'll be a continuous relationship, continuous exploration, InterOil would extract more, have its own business going on with no disruption in it, so that's my opinion on that.

This respondent explicitly pointed out that compliance is part of the agreement signed in the MOA. The MOA states that the company has to comply with law and meet the needs and aspirations of local landowners. Furthermore, respondent JI-X1 acknowledged that companies comply with law because it creates social stability, harmonious relationships, and continuity in exploration of oil and gas without disruptions. It also saves corporations from prosecution.

To this end, it is reasonable to say that there is clear consensus across the participants that complying with law is part of their social responsibilities. There are a number of reasons that companies comply with law. Law helps companies to identify specific stakeholders they are dealing with, and law gives the company a passport to access loans from the international financial institutions. Importantly, by complying with law, companies are expected to operate in a way that consistent with the expectations of government and law (Carroll, 1991). Carroll (1991) says this forms an important contract and becomes a part of legal framework, so business must pursue their economic interest within this framework. Failure to comply, leads to legal actions and prosecution. I now turn to an analysis of stakeholder engagement.

4.4.8 Stakeholder engagement

The major challenge for corporations operating in PNG's oil and gas or any other resource development is the notion of stakeholder engagement. The previous corporations, for example, Rio Tinto, BHP Billiton and others, have ignored the importance of stakeholder engagement (see Filer et al., 2008). As a result, there were strong criticisms from the public and international community regarding their (corporations) moral obligations to their stakeholders. In response to this

criticism, the current approach to stakeholder engagement is through an institutional approach where different government institutions - national, provincial and local-government in the project area - are engaging with landowners and the company (IOC). As one of the team leader/employees commented:

> JI-X1: Ok, a petroleum development licence hasn't been given yet, if the government gives then all the important stakeholders including landowners, local-level government, provincial government and the national government will fully go for this agreement, because there is an understanding and communication between all stakeholders.

This participant (JI-X1) identifies key stakeholders of corporations as landowners and the state: national government with the provincial and local government in project areas. Furthermore, this participant showed that stakeholders are comprehensively engaged only when an operating license is awarded to the company. Participant JI-X1 believes that by engaging with national, provincial and local government at the project area, conflicting interests, agendas and wishes can be resolved and necessary agreements can be reached. However, earlier comments showed that there is a general weakness on the part of government, especially, provincial and local governments in project area fails to properly plan and appropriate project benefits. A community affairs manager described:

> A1: Stakeholder engagement [as] essential; stakeholders of course are the State, provincial and local-level governments, the landowners and the company, and that we are all part of the project, and the Oil and Gas Act spells out who the stakeholders are, their interest, agendas and wishes and we've been doing all these to reach amicable answers through communicating and consulting with all parties.

Participant A1 refers to stakeholder engagement as essential for corporations, based on the reason that stakeholders are very complex, because they have different interests, agendas and wishes. Resolving these differences and reaching amicable answers to these differences is seen as crucial for the exploration of oil and gas. For landowners, stakeholder engagement implies ownership,

participation and access to benefits. Participant A1's view or comments on the idea of engaging with stakeholders through communication and consultation implies a shift in the Oil and Gas Act (1998), and such approach to stakeholder engagement is in line with (Bendell, 2003; Deetz, 2007; Donaldson & Preston, 1994) model of stakeholder governance. In Donaldson and Preston (1994) and Deetz's (2007) model of stakeholder governance, there is an open communication and consultation amongst stakeholders, as well as good community relations and collective participation. In the following quote, a community affairs manager describes the notion of stakeholder engagement in relation to this style of stakeholder governance:

> A3: Stakeholder engagement joins [them through] a social licence to operate. In 1997, Rio Tinto developed it and it is such pillars of community relations and mutual respect, active partnership and long term commitment that maintain a social licence to operate. You got to go out there and talk to the people at the roots and hear their concern because there's different levels of understanding so engaging with community is really is when you sit down in two-way conversation of what we do, either right or wrong, so that the decision would be made by the community themselves.

This participant (A3) describes or defines stakeholder engagement as: "social licence to operate," "pillars of community relations," "mutual respect," "active partnership," "engaging with community" and "two-way conversation." Based on descriptions of stakeholder engagement given by participant A3, it is reasonable to say that companies see stakeholder engagement as essential, even beyond compliance with the law, because it gives them the social licence to operate; it helps them establish a good community relation that is built on mutual respect and active participation through two-way communication amongst all stakeholders. Again, participant A3's description of the notion of stakeholder can be seen to be in line with Donaldson and Preston (1994), Deetz (2007) and Oketch's (2004) model of stakeholder governance. These views or approaches to stakeholder engagement imply a significant shift in the extent to which corporations are engaging with stakeholders.

Also, the respondent A3 noted that the need of having comprehensive stakeholder engagement started in 1997 with Rio Tinto, a British multinational mining corporation. Rio Tinto was directly responsible for environmental destruction and poisoning of river systems near the Bougainville mine with dangerous chemicals; this instigated a decade of bloody civil conflict between PNG government forces and local landowners, largely due to the company's failure to comprehensively engage with wider stakeholders and landowners. In realising its mistake and as a response to this, Rio Tinto introduced the idea of comprehensive stakeholder engagement after this issue. Putting this into perspective, it is seemingly clear from the company's point of view in oil and gas exploration, or any natural resource development for that matter, that stakeholder engagement is essentially important for managing associated issues to allow continuity in corporate operations. In the next part, I briefly look at the process and the extent to which stakeholders are engaged.

4.4.9 Development forum and consultation

Development forum and consultation is seen as a way forward to effectively engage stakeholders in the Oil and Gas Project. The forum promotes communication, consultation and participation of all stakeholders, especially the affected landowners and provincial and local government in the project area. The company (InterOil) believes that through consultation and forum processes, conflicts of interest can be resolved and an amicable agreement can be reached. As one of the managers commented:

> A1**:** We get things sorted and summed up in the forum so we end up with a very amicable agreement where everyone is happy.

This participant clearly states that in the development forum, differences are sorted out and agreements are reached amongst all stakeholders. Another employee commented:

> A2: We run formal agreement through a forum and in this forum we sign different agreements such as the operation licence and land use rights with various government agencies and landowners and relevant stakeholders.

This participant commented that in the development forum companies engage with various stakeholders in order to get operating licenses and land use rights. Furthermore, participant A2 commented that through consultation in the development forum, relevant or specific stakeholders are identified. Overall, stakeholder engagement is seen as an essential part of CSR practice in the Oil and Gas Project.

4.4.10 Increasing internal migration, alcoholism and HIVAIDS

In spite of the company's efforts in exercising CSR for positive outcomes, increasing international migration, alcoholism and HIVAIDS emerge as important social issues linked to economic development – which, as noted above, is considered to be associated with CSR practices. These issues are regarded as the negative impact of the Oil and Gas Project. In an attempt to increase the positive economic benefits of the project for the affected landowner community, negative impacts are also created. This is described in the following quote:

> A3: We anticipate for the things like health, there's a likelihood of transmitted diseases, sexual diseases to introduce into these communities; the introduction of cash into these communities has had a huge impact on them, both positive and negative. Negative impacts include the introduction of alcohol, there's not a lot up there, and it has social implications.

This respondent acknowledged that the introduction of cash would contribute to social issues identified above. As participant A3 commented, these issues start with the introduction of cash into the rural communities in the project area. There is a transformation of social livelihood into a modern capitalist society, where money forms the basis of all decision-making. Decisions regarding their environment, land and water and their own lives are put at risk in exchange for money. Critics (e.g., Munshi & Kurian, 2005, 2007) believe that developing countries are lured by multi-national corporations into accepting money in exchange for their environment, land and water, as described by one of the employees of InterOil, as follows:

X8: I think as far as I'm concerned and as an employee to this corporation, I think they've influenced the community with the idea of cash hand-outs so there are now many environmental problems because people see money as important. Also on the other hand there are social and health issues in our community when people turn to look for cash and jobs.

This respondent (X8) clearly believes that cash or money has become a central tenet upon which decisions are made. As respondent A3 commented, when people see money, or when corporations offer money to the people or landowners, the environment becomes less important. Similarly, if they look for cash or job opportunities, there is likelihood of increase in associated social and health issues. Consistent with the points examined in A3, respondent X8 affirms that money becomes everything for local landowners and communities. Thus, we could say money shapes decision-making, transforms and changes social livelihoods and introduces foreign or previously non-existent issues, such as HIV/AIDS, alcohol consumption and anti-social behaviour, and broadly contributes to the destruction of the natural environment. Overall, there is a strong understanding of moral obligations on the part of the company. As participant A3 pointed out, the company (IOC) understands and even anticipates the potential moral issues that are associated with its operations in the Oil and Gas Project.

It is reasonable to rationalise that CSR, in the form of economic development, not only brings positive benefits to the communities or local landowners but it also, so to speak, creates social instability and environmental insecurity across the community.

4.4.11 Environmental practices and reporting

The growing concern for corporate moral obligations has also forced corporations to adapt to a new approach to environmental practices, such as the Global Reporting Initiative (GRI), the International Organisation for Standardisation (ISO), and other recommended international reporting frameworks for social and environmentally sustainable practices. A community affairs manager attempted to explain this as follows:

A2: We've already carried out baseline studies – ISOs, and undertook health baseline studies for the communities in the upstream, and the baseline studies would be the base for on-going monitoring of health and environmental issues and that would be regularly reported.

This quote clearly states what the company (IOC) is doing. As part of its moral obligations, the company is running on-going health base-line studies using an International Organisation for Standardisation (ISO). The ISO is an international sustainability reporting framework that guides corporate practices (and reporting of those practices) with regards to environmental, social and health issues, and economic responsibilities. However, in practice, the company appears to prioritise profit making over environmental responsibility:

JI-X2: Companies have responsibilities to the environment, whether they are people, the fish or animals or whatever, but at the end of the day the bottom line is profit.

Similarly, another one of the managers (community affairs) commented:

A3: You want to feel like you're part of the community and environment but not the other side but equal to that, in business anything you do is irrelevant unless you make profit.

The respondents (JI-X1, A3) clearly acknowledged that while the environment is important in CSR practices the company (IOC) must make money or be profitable. One of the employees gives a different view:

X8: As a technical person I've come to realise and found out that there's nothing sustainable being done to the environment. We were told to regularly monitor the waste disposal and how we can practise best and safe ways and this has not been done since the establishment of the company and it's just been done this year and it is still under construction and this site is to build a solid waste disposal site, but from my point of view it hasn't been done.

The suggestion from this quote is there are in fact very few environmentally sustainable practices. This is evidenced with lack of proper monitoring of solid waste control. According to participant X8, very little has been done with regards to environmental practices, in spite of what they say. The practices X8 reported are based on the environmental practices at the oil refinery site. There is no clarity on how environmental practices are reported at the local level, and although the laws such as the Oil and Gas Act (1998) and Environmental Act (2000) are there, there is no clear reporting or monitoring framework for solid waste at the local level.

4.4.12 Community services and discretionary duties

Community services and discretionary duties are important corporate philanthropic responsibilities and they include educational training, health, maintenance of infrastructure such as roads, school buildings and the airstrip. These responsibilities are considered an import part of CSR; however, one issue is that it has created an overlap between corporate social responsibilities with the government's constitutional obligations of service delivery. One of the managers (community affairs) attempted to explain what the company (InterOil) is doing with regards to its philanthropic responsibilities and the position of government, as follows:

> A2: Apart from employment opportunities and monetary gain we give them health, education and infrastructure such as transport, shipping, roads and buildings, school buildings and we've maintained an airstrip, but it also counts on government to do their part, which seems to be lacking.

Similarly, another manager commented:

> A1: There's general lack of planning, in policy and planning there's very little input from national and provincial government. Example is that of Lihir government and Ramu Nickle, there's no clear guidelines, although we have Oil and Gas Act, it's very vague and full of potholes or loopholes. Ah, in theory I have but in our case we have very little input from both the national government and the provincial government. Being a national

project, we should have a full time TPE (representative) person working with us, rather than relying on us to provide for community.

Respondent A2 commented on corporate community activities in the affected communities in the Oil and Gas Project. He pointed out a lack of government support in providing community services to the affected communities in project areas. The quote from respondent A1 is clear on why the government fails to support or work coherently with corporations: the government lacks clear planning and social policy to address issues regarding service delivery, particularly for the affected communities in the Oil and Gas Project. As such, we could say that the government seems to maintain a hands-off approach, hoping for corporations to meet societal needs. As respondent A1 commented, government lacks focus, especially in terms of policy and planning in its development programs. Although legal mechanisms such as the Oil and Gas Act (1998) seem to provide a framework for CSR, they fail to provide a clear role that demarcates corporations and the state (PNG) (refer to respondent A1). The government's expectation appears to be that multinational corporations such as IOC will provide for affected communities. Consequently, this has led to a lack of coordination between government and corporations and has led to inappropriate development of social programs, resulting in a systematic distortion of social and economic development. As a community affairs manager stated:

A3: We are not a charity and we are not the government and each of them has their own areas of responsibility but from the company side of it, as a good corporate citizen or as part of discretion, we do but the problems come about in the community when government doesn't do their job and so they look to the business to do it and that's where inappropriate programs and confusion come in so, as much as we'd like to help with the programs of education and health, it's not our job, yeah, so we like to be part of it but we don't own it, it's part of government so that's bit of confusing in what we do.

Respondent A3 commented that community services and discretionary duties are done as part of corporate citizenship. That means, they do it as goodwill, and it is not necessarily attached to any agreement. This means, apart from specific duties

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of corporations, specified in MOA/MOU, such as compensation payment, royalty distribution, infrastructure development; corporations also perform other discretionary activities such as through charitable giving, sponsors to local school's end of the year functions, transporting school and health supplies or sponsor locals to further training, which are on-going activities apart from formal agreements as stated in MOA/MOU. This participant blames the government for not fulfilling their social responsibilities; instead, the government seems to rely on companies to provide for the affected communities. Hence, it is reasonable to say that CSR creates ill-conceived or inappropriate development programs, which seem to create confusion between the constitutional roles of government as a service provider to the society and with the social responsibilities of corporations. Furthermore, discretionary duty, by its nature, is not part of any formal agreement or may not necessarily be defined in law (e.g., Diener & Seligman, 2004). Often the companies do it under any circumstances without any feeling of obligation. That means it may not necessarily be part of an agreement, but the company (IOC) does it as part of its philanthropic obligations. As a team leader stated:

> JI-X1: Ok, for discretionary duties for the PDL area so far InterOil has sponsored students and they are in college now; previously, there is no teacher being trained by the government because they are very remote; no government services go there so when InterOil went in for exploration, out of good will it is doing in terms of charity giving, or donations like close of school year functions, food rations and awards.

This respondent commented that the company's (IOC) discretionary duties are duties they do out of goodwill. The activities, like sponsoring students and doing charity activities such as donations to schools, food and awards, are done out of goodwill or can be seen as a corporate philanthropy. Kim and Reber (2008) define corporate philanthropic responsibilities as discretionary duties that associate with charitable activities, such as those given in the above quote.

4.4.13 Summary

The purpose of this chapter was to review the themes that emerged from interviews with participants from InterOil Corporation. Themes summarised in Table 5 were analysed, reflecting an understanding of the ideas, activities and

approaches constituting CSR practices. It is apparent from the data analysed that the idea of having corporate social responsibility is a compelling proposition that seems to be a notable aspect of natural resource development in PNG, particularly in oil and gas projects. The main issue that underpins the understanding, approaches and the practices of CSR is about managing the conflict of interest between moral obligations and economic/financial obligations; that is, managing the balance between negative impact and positive benefits of the project. Also, these two, negative and positive benefits have influenced the way companies react or construct their social responsibilities. This was evident in the analysis on how positive benefits are shared, either as economic benefits or social benefits.

As will be clear from the analysis that CSR not only brought positive benefits to communities in oil and gas projects. It also, so to speak, creates social instability and environmental insecurity across the community. In this case, money or the introduction of a cash economy into the communities becomes almost everything concerning all decision-making between project operations and the environment. Thus, there is general social instability across the affected community in project areas. Furthermore, CSR not only increases positive economic benefits but it also generates social inequalities in the community. Immediate landowners become the main focus for economic benefits, thus creating inequalities in the project areas. Another important point is that CSR seems to create ill-conceived development programs because of confusion of roles between the state and corporations. Thus, there is an overlap of responsibilities between the state services delivery mechanisms, such as the provincial and local-level governments in affected project areas, or in general at the national government level. There is a clear indication of the need for specific social policy or legislation for CSR practices in PNG. Overall, there is a clear understanding by the company (IOC) of the concept of CSR practices.

CHAPTER 5   DISCUSSION

This study started off with an aim of exploring the extent to which the concept of corporate social responsibility (CSR) is defined and articulated by corporations in PNG. This was explored using the case of InterOil Corporation (IOC), and the data collected were analysed in Chapter 4, reflecting the views and understanding of the company on how CSR is constructed, and the positioning of it, in the Oil and Gas Project.

A theoretical model or framework that guides this study in exploring the stated aim was discussed in chapter 2. The framework constitutes different theories, approaches and responsibilities of CSR. This chapter discusses the findings in light of the relevant literature constituting the theoretical framework of this thesis, as given in Table 6. The discussions are made under each theme and towards the end of the chapter a summary discussion is provided.

Table 6: Summary of views and understanding of CSR practices

• Defining CSR: CSR as part of managing the negative and positive impact of projects
• Production and marketing • Allocating benefits through clan-based umbrella companies • Benefitting through business opportunities, jobs/employment opportunities and training • Compensation, royalties and benefit sharing
• Signing of Memorandum of Agreement (MOA) • Compliance and continuity in business
• Stakeholder engagement • Consultation and development forum
• Increasing internal migration, alcoholism and HIVAIDS • Environment and reporting
• Community services and discretionary duties

5.1   Defining CSR in the Oil and Gas Project

The legacy of crises associated with corporate social responsibility, for example caused by the Bougainville mine catastrophe or the Ok Tedi mine debacles, will linger on in the minds of corporations wishing to operate, or who are now operating, in PNG's extractive industry. This situation has become an important intersecting point that has shaped and is reshaping the extent to which the concept of corporate social responsibility in the oil and gas sector or, broadly, the extractive industry in PNG, is defined and articulated. Crisis associated with CSR remains an important stepping stone for CSR development, and is deeply acknowledged in this study. As one of the community affairs managers conveys, CSR is:

> …to reduce negative impacts of the project, environmental and social impacts, to reduce them as much as possible and to maximise benefits from the development of a project like employment opportunities and monetary gain out of it and also benefit should come from social services, health, education, and infrastructures such as roads as stated in the law, so we continue to operate.

What is obvious, in the positioning of CSR in oil and gas projects, is the relationship between legitimising moral imperatives (such as environmental protection, social needs and values of communities) and the economic objectives of corporations. The view quoted above implies a relationship, an approach towards integration of societal values and economic values, which situates CSR in the Oil and Gas Project. This approach to CSR is in the context of Porter and Kramer's (2006, 2011) notion of "shared values." Porter and Kramer (2011) defined value in terms of benefits relating to the cost incurred as a consequence of corporate activities. In the context of the Oil and Gas Project, this definition is based on the premise defined within the idea of integrating economic and moral obligation, or the social values of society with corporate economic goals. The starting point for shared values begins with companies identifying immediate or specific societal needs and assessing the kind of impact they will have on the corporate productivity or operations and introducing redistribution of benefits.

The notion of shared values is sandwiched between the redistributing benefits with simultaneous addressing of negative impacts of a project, relating to the cost incurred from corporate operations. Often the government, or even community, sees such value creation in terms of money; for example, compensation payments or royalty money paid to the affected communities are seen in terms of benefits. However, understanding such needs or benefits in the context of shared values is an important point of intersection between business and society relations. The important rule that applies in the given quote is for corporations to operate within the law, meet the requirements of the law and, as much as possible, continue to operate and be profitable (see Aune, 2007, and Trevino & Nelson, 2011, regarding Friedman's argument on social responsibility and the economic or financial position of business).

5.2   Production and marketing of oil and gas

Production and marketing is an important part of corporate economic obligations. In defining their economic obligations, participants acknowledged production and marketing as part of their legal obligations. This is apparent in the Oil and Gas Act 1998, which requires InterOil Corporation to explore, refine and distribute the oil and gas products to domestic markets in PNG, as well as to export offshore. The finding is consistent with Carroll's (1991) pyramid CSR model, which states that by law, companies are to meet the economic needs and demands of the nation in which they operate. In an interview response, one of the employees attempted to explain this, as follows:

> …yes, by law and under the agreement with government, InterOil set up a refinery since, I think, 2000 or 1992 so it currently is refining most of its crude oil which is produced and the products are sold throughout the country.

The rule of law is deeply acknowledged as an important platform from which to launch into economic development and financial prosperity. This forms an important basis of an agreement between the government and IOC. This idea, that business must operate within the law and as much as possible increase its profit, is evident in the previous quote. This is in line with Friedman (1950, as cited in Aune, 2007), who argued that the social responsibility of business is to make

profit, by operating within the law. From Adam Smith's neoclassical theory, market and law are two opposing forces (Ostas, 2001). The notion of market is well entrenched in neoliberal democratic society, where there is freedom of market and market mechanisms and where the "invisible hand" of the market solves any social and environmental issues or externalities, and profit is accrued to individuals. However, legal intervention, or the rule of law, is seen as a barrier to corporate economic objectives and financial prosperity. In this study, the presentation of views on CSR practices indicates a significant shift towards an integrated or unified approach to "shared values" (e.g., see Porter & Kramer, 2006, 2011). An example is the clear recognition of tribal organisational structure, such as the clan system, along with corporate economic values and government regulations.

5.3   Allocating benefits through a clan-based umbrella company

In pursuit of economic goals, business must, in return, contribute to the community in which it operates. This idea has long been debated by economic theorists, businesspeople and academics in various fields. Examples are Milton Friedman's argument on social responsibility and profitability (e.g., Cheney et al., 2007) and Adam Smith's neoclassical argument on increasing market forces and reducing state intervention (Ostas, 2001). In response to these arguments, businesses have also modified their approach to contributing to communities through various forms and approaches. Thus, the concept of a clan-based umbrella company is one such approach that InterOil Corporation has taken for contributing back to the affected communities, particularly to the landowners. This approach is a bottom-up, interactional and participatory approach, where there is recognition of social values and tribal organisational structures such as the clan-based system. A community affairs manager attempted to explain this as follows:

> We establish what they call a landowner umbrella company in the impacted area and that company is in joint venture with larger firms and then business spin-offs and dividends go to various clans using modern economics to share wealth and effective participation using traditional ways.

Interestingly, there is clear integration of corporate economic values with social values, which are seen to form the basis of the participatory approach (e.g., see Porter & Kramer, 2006). Porter and Kramer (2006) say that such an approach, for example the clan-based concept, is a strategic approach – strategic because it provides a point of intersection that grips all agendas and interests of corporations, society and the state. In PNG, a community unit is created by the clan system, which forms a complex tribal organisational structure. Given this complexity, there is always a possibility of conflict of interest regarding resource ownership, and that could also affect the level of stakeholder or community participation. Identifying specific clans is important because it creates relationships between the company and affected communities or landowners. In the following quote, one of the employees has explained the importance of why the concept of a clan-based approach is necessary, as described in the following:

> We build a good relationship within the resource owner community so that we have a relationship where we allow them to take ownership and appreciate this so when the community takes part, the project becomes localised and that would help us continue operating in the area.

Identifying the specific clan is necessary for a number of reasons. Obviously, it helps companies to appropriate resources to specific landowners. Furthermore, through this the company establishes a relationship with the affected communities. Also, it implies greater participation, which, in turn, meets the company's (IOC) objectives of making money, and that is evident through it being allowed to continue operations.

5.4 Benefitting through business opportunities, jobs/employment opportunities and training

The challenges of maintaining continuity in the face of globalisation and increased concern about social and environmental sustainability face all companies. Regardless of how big the challenge may be, the common challenge to any businesses is how to manage conflicting social values and interests while simultaneously increasing economic benefits that are equally satisfying to both the business and society. For that reason, the business strategies have also evolved to meet these challenges fostered by society. In attempting to explain this, the

following quote from a community affairs manager (InterOil Corporation) conveys that:

> …the idea of business development is to widen the benefit stream so that somebody benefits through the business, either through providing employment or dividends, or it may be some project that the business is sponsoring in the villages, because I suppose if you create a situation of haves and have nots, you create disharmony in the community so it's how you engage with them.

The aim of providing business opportunities, creating jobs, and providing employment opportunities is to widen or increase economic benefits to the affected communities in order to minimise disparities or social inequalities in project areas or affected communities. The fundamental principle in Carroll's (1991) CSR model is that by law, corporations are obliged to provide goods and services to the community in which they operate. This affirms knowledge of corporate economic responsibilities as a fundamental pillar in the ladder of the CSR model (e.g., Carroll, 1991; Mersham et al., 2011; Tench & Yeomans, 2009; Trevino & Nelson, 2011). However, what is more important to businesses is to create stability in the society in which they operate. The need to have stability and social cohesion (e.g., Oketch, 2004) with the stakeholders, particularly landowners or affected communities, is evident through the idea of redistributing economic benefits and redressing social concerns such as economic disparities and social inequalities. The obvious concern is the continuity of the project, and such concern has shifted corporations to a new level of governance or corporate governance, evidenced in corporate efforts in creating jobs, providing employment opportunities, and increasing financial benefits at the local level (e.g., see Oketch, 2004). In this new style of corporate governance, there are more interactions or partnerships and more recognition of stakeholders' rights, and in return it approves or legitimises business operations in the community (Deetz, 2007; Oketch, 2004), as described in the following quote:

> InterOil recognises that there are communities that live around the refinery and so they have assisted in establishing a company and that company has assisted in recruiting local people that live around the refinery and they

have engaged them in employment and it kind of increases cash economy at village level, and as well it helps company to continue to operate.

There is a clear understanding that the sustainability of businesses depends on them meeting societal demands and levels of governance, where there is interaction and social cohesion which is mutually benefiting all interested stakeholders (e.g., Oketch, 2004) in terms of jobs and employment opportunities.

5.5.   Compensation, royalties and benefit sharing

As will be clear from the above discussion, the main focus of the company is to manage the challenges, while reinforcing social cohesion through integrating its interest with social values using government regulations. The idea is to increase benefit sharing and to minimise or reduce economic disparities and social inequalities within the affected communities. Compensation, royalties and benefit sharing are parts of the approach towards increasing benefits. The idea of compensation is rooted in ethical theory, and it is an ethical issue which implies justice, equity and impartiality in the development process (Cavanagh et al., 1981). In PNG, the concept of compensation is well entrenched in customs and traditional practices and seen as a medium of conflict resolution between warring tribes. The main medium of compensation is pigs and exchange of young women in marriage between two warring tribes. Thus there is peace and harmony and life continues. Failure to comply leads to conflict, tribal fights, and destruction of property or even death. In this postmodern, globalised corporate era, the idea of compensation has transformed itself in the form of money, evidenced with increasing "landowner politics" and conflicting interest over the land rights and compensation money (Kirsk, 2004; Sagir, 2004). It is clear evidence of capitalism at its most obvious, a "… logic of capitalics – a politics fueled by global capital" (Munshi & Kurian, 2007, p. 439). In the following interview response, a community affairs manager attempted to explain compensation and why it is an important social responsibility:

All the time we are talking to the landowners and paying compensation and that could go on for 10 years, so it's a crazy thing but we've learnt many lessons from Bougainville.

By law the companies are required to compensate affected communities. Under the Oil and Gas Act 1998, corporations are to compensate landowners and the affected communities in which the company operates. The idea itself remains controversial for critics, who have argued that compensation is becoming a more expensive legal liability for corporations (Hearit, 2007). Although an expensive exercise, it is deeply acknowledged as important for the sustainability of corporations and part of corporate economic responsibility. Past experiences, such as the case of Bougainville mine and bloody conflict with the government and Rio Tinto, remain important reminders today.

There is also a view from an employee who feels that too much attention is being paid to compensation with few or no concerted efforts between corporations and the government to implement existing development plans, which he thinks is a lack on the part of the company:

> I think not only compensating locals but as part of assisting government in their development plans and actual implementation of development, business should do this because when the businesses are in harmony with the community then there is continuity of production and profit making for company.

There is an understanding that the company pays royalty money to government, and it is expected that the government implements its development plans accordingly, rather than relying on corporations to do what it (government) is supposed to do. Although the law defines a new approach to partnership between government and corporations, it should not be seen as a substitute for the traditional role of the government in implementing its social policies and development plans (e.g., see Oketch, 2004). In the following quote, a community affairs manager explains this:

> The other side of the coin is that a lot of money goes to governments, provincial and local governments' coffers, in the form of royalties to offset that gap between haves and have nots by providing them with basic services like health and education and so forth; now that hasn't really worked.

The use of royalty or compensation money remains questionable, especially when coupled with the increased economic disparities and social inequalities (haves and have nots) within the project areas. The corporation (IOC) pays royalties to the government, especially provincial and local government in the project areas, with an aim of offsetting social inequalities. However, it is apparent what the company has expected has never eventuated. The reason is that the government lacks clear development plans and social policies, as one of the community affairs managers, for example, attempted to explain in the following quote:

> There's general lack of planning, in policy and planning there's very little input from national and provincial government.

In view of this, government participates through its legal mechanisms such as the Oil and Gas Act but operates in isolation, relying on corporations to provide for the needs of the affected communities.

5.6.   Signing of Memorandum of Agreement (MOA)

A MOA is a legally binding document that binds corporations, the state and landowners. It is a form of contract in which the state, corporations and landowners enter into agreement voluntarily to create legal obligations. In the context of social contract theory, MOA is a contract that voluntarily binds corporations, the state and society or landowners with entire economic systems (e.g., Donaldson & Dunfee, 2002; Wolff, 2006). The idea of social contract exists at many levels and can be signed between individuals or organisations. From the perspective of a traditional democratic society, the idea of social contract is through the election process where people vote for their representative to form a government and, in return, the government provides for the people's social and economic needs and governs their affairs (see Horton, 1992). However, with the growth of globalisation and the inclusion of corporations into decision-making on service delivery, the style of governance has shifted into a "third-way" (see Giddens, 1998), where corporations become increasingly important in decision-making and service delivery. In the following quote, one manager attempted to deliberate on the relationship created between corporations, government and society through the process of MOA:

JI-X1: MOA is signed between important stakeholders as part of the licensing process. In signing MOA, the company ensure the people impacted by project are catered for and benefit from the project is paid to them in the form of compensation. This is part of the benefit sharing agreement and development agreement like infrastructure development or roads and it is signed between various landowners, provincial government and local government at a forum on the type of development for communities.

In the signing of the MOA, corporations are licensed, indicating a decentralisation of economic and financial powers and intellectual property rights to corporations (Giddens, 1998). In essence, the corporations, or InterOil Corporation in this case, are recognised as the legal entity and given an autonomous status or freedom under the law, such as the Oil and Gas Act, to meet their economic objectives. For example, in the early stage of the project, PNG's government had exempted tax or given a tax holiday to InterOil Corporation for five years. Critics (e.g., Chatterjee, 1999; Giddens, 1998; L'Etang, 2009) argued that the new arrangement of governance not only gave away economic and political powers but it distorted the conventional approach to the social norms in social service delivery and created a domestic political imbalance as well. As Giddens (1998) says such shifts of governance takes away intellectual control away from "nations into de-politicised global space" (p. 140) in this globalised corporate era. Thus, MOA can be seen as one such approach to political, economic and intellectual control by corporations.

5.7   Compliance and continuity in business

Businesses of all sizes comply with the legal requirements of countries in which they operate. Compliance means a company must follow what the law says or follow the "dos and don'ts." To fail to comply would risk the continuity of operations or involve facing lawsuits. Given this, companies may see compliance differently; for example, for some it may be part of their social responsibilities, while others may see it as a legal liability. For example, in PNG, compensation is a legal requirement and corporations are expected to comply; however, others (see Hearit, 2007) say it is a modern legal liability. For this study, there is a general

consensus deeply acknowledging law as an essential part of corporate social responsibility, because the law identifies specific stakeholders and specific issues or needs of the stakeholders so that resources are prioritised and appropriated accordingly. In this way, there are interactions and active participation amongst stakeholders - the state, corporations and landowners - in decision-making. In the following quote, a community affairs manager attempted to describe the company's view or understanding of law in relation to CSR:

> We have to follow the laws of course. The Oil and Gas Act pretty well spells out who the stakeholders are and the Oil and Gas Act must ensure companies be given priority to take an active role in the development forum.

Clearly, the law sets the "ground rules under which business must operate" (Carroll, 1991, p. 41). That means, if the rule says there is to be equity, justice and fairness and the integration of corporate values with societies, then corporations have to keep to that rule. Failure to play within the ground rules risks forfeiting the operating licence or legal permission from the state. Also, there is another important ground rule, referred to as a financial markets' disciplinary mechanism (Reynolds & Yuthas, 2008), which corporations such as InterOil, must follow in order to avoid being denied access to financial loans by the banks or international financial institutions. This is described in the following interview quote:

> The international finance company act on commission as donors of the bank who lend a huge amount of money to companies and act as signatories and these banks are the ones who set rules on how we interact with local communities so they lend you the money on the basis that you follow those rules. We not only have our own policy but we follow broad policy, otherwise you don't get access to finance.

The message is simple and clear: play within the rules and play safe, according to the ground rules specified in the given quote, because "it is dangerous to skip this stage- dangerous because failure to comply with legal requirements for health and safety, for example, could lead to costly lawsuits and a damaged corporate reputation" (Dunphy et al., 2007, p. 281). We could even say such failure would

result in being denied access to financial loans. Also, corporations must play within the ground rules set by the laws of the nations in which they (corporations) operate - for example by complying with the Oil and Gas Act - in order to avoid being denied access to operating licences or legal permission. There is a clear understanding that corporations would not want to risk forfeiting their primary aim of making profit, so they must act within the laws; for example, by adhering to the Oil and Gas Act or the International Financial Institutions Act while simultaneously making money (e.g., Friedman, 1950, cited in Aune, 2007; Trevino & Nelson, 2011). The following quote from an employee explains this:

> The company has to comply with the State laws and agreements signed with the State like MOA and at the same time it has to satisfy the local landowners so in that way there'll be a continuous relationship, continuous exploration InterOil would extract more, have its own business going on with no disruption to it, so that's my opinion on that.

The relationship between the law and CSR is very clear. That is, the law can be seen as an important point of intersection between corporations, the state, and society or landowners. It integrates corporate economic interest, societal values and the state's interests. On the other hand, critics of the function of law in relation to CSR say the law may not necessarily cover all aspects of societal concerns and moral obligations or wider societal participation; because of its limitations, the law only encourages managers to take minimal actions and avoid the larger part of moral duties (Seeger & Hipfel, 2007). For example, in the Oil and Gas Project, the law applies only to people living within 5 kilometres of where the project is or oil and gas pipeline is built and stops there; that means that beyond that point, there is little consideration of the environment or the inhabitants of the land. There is a clear limitation of law in addressing the wider scope of moral issues. In the context of the law, complying with the requirements of the banks, the International Financial Institutions Act and the Oil and Gas Act indicates a "fiduciary obligation" (e.g., Seeger & Hipfel, 2007), where corporations legitimise their position to their external stakeholders, and this idea is clearly indicated in the quotes above.

5.8   Stakeholder engagement

The findings in relation to stakeholder engagement reveal that stakeholder engagement is essentially a legal obligation. The law defines who the stakeholders are, and it (law) helps resolve different interests, agendas and wishes of the state (national, provincial, and local-level government), corporations and landowners of oil and gas, or any resource development for that matter.

Stakeholder engagement is therefore part of legal obligations. The Oil and Gas Act (1998) defines the stakeholders and specifies the approaches taken to engage with them. Stakeholders can be either primary or secondary parties, but it is more convenient to look at those stakeholders with whom companies have a vested interest. In this study, the stakeholders are the state, (national government, provincial government, local-level government) and local landowners or clans with whom the state and corporate interest is vested. Stakeholder engagement in the Oil and Gas Project is referred to as an essential part of corporate legal obligations. The style of stakeholder governance involves a "third-way" (Giddens, 1998). In the light of third way governance in relation to stakeholder engagement, there is a significant shift in institutional arrangement, where it offers greater political and economic benefits to corporations. In an attempt to explain how stakeholders would be governed, a field coordinator attempted to articulate the position of corporations and government on stakeholder engagement, as follows:

> Ok, a petroleum development licence hasn't been given yet; if the government gives one then all the important stakeholders, including landowners, local-level government, provincial government and the national government, will fully go for this agreement.

The petroleum operating licence gives legal permission and defines corporations as a legal entity or an autonomous body with a certain degree of freedom to achieve their economic objectives. As stated earlier, in the first years of its operation InterOil had been given a tax holiday. Although this change or approach to stakeholder engagement seems a little skewed, it brings in a new form or style of stakeholder governance (e.g., see Deetz, 2007) in PNG's extractive industry. In doing so, there is a greater recognition of the interested stakeholders. This is not to

disparage any practices of stakeholder engagement in the past; however, as discussed earlier, most crises and issues were associated with stakeholders, especially the landowners, against corporations (Banks, 2009; Gilberthorp & Banks, 2011; Imbun, 2007). In response to the question of stakeholder engagement, one of the managers in the community affairs section of IOC described a more systematic approach to transformational change, or a shift in organisational repositioning, with regards to its stakeholders and the issues concerning sustainability (see Dunphy et al., 2007). A community affairs manager conveys that the idea of engaging with stakeholders:

> …joins [them through] a social licence to operate. In 1997, Rio Tinto developed it and it is such pillars of community relations and mutual respect, active partnership and long term commitment that maintain a social licence to operate. You got to go out there and talk to the people at the roots and hear their concern because there's different levels of understanding so engaging with community is really is when you sit down in two-way conversation of what we do, either right or wrong, so that the decision would be made by the community themselves.

In line with Deetz's (2007) stakeholder governance model, there is a transformational change or shift towards meeting the legitimate expectations of stakeholders. The model of stakeholder engagement is based on the premise that failure to establish good relationships with the community in which the corporate body operates is another way of heading down a slippery path and it is dangerous to overlook or ignore the idea of stakeholder engagement (e.g., see Dunphy et al., 2007). The current focus of transformational change in the relationship between stakeholders and corporations in PNG is evidenced by the following terms stated in the interview response above:

- *Social licence to operate*
- *Pillars of community relations and active partnership*
- *Two-way conversation and mutual respect*

These pillars of stakeholder engagement are in the context of Deetz's (2007) "stakeholder governance model" and Oketch's (2004) notions of "corporate

governance and social cohesion." The new style of corporate governance looks beyond corporate economic objectives and integrates a wide array of stakeholder and shareholder interests, based on mutually deepening relationships and interests, partnerships, open dialogue and consultations through a forum process (Oketch, 2004). This approach to stakeholders is not defined within the law; thus it would have very little impact on government regulations or societal choices to engage in resource development. Although there are government regulations, such as the Oil and Gas Act, the Environmental Act or the Mining Act, which are there to guide stakeholder governance, much attention is paid to economic or financial benefits that accrue to stakeholders or immediate landowners and the state. Thus we created distortion and disconnection between social values and economic values (e.g., see Porter & Kramer, 2011). The new approach to stakeholder engagement as such is nothing to do with, or is less influenced by, legislation; thus, it indicates the current views and the position of corporations with regards to the notion of stakeholder engagement.

5.8.1 Social licence to operate

Genest (2005) argues that the sustainability of a business hinges on it meeting the philanthropic needs of the community in which it operates. For example, when a mining corporation was about to start its operation at Pogera, in Enga province, the landowners quickly issued threats, threatening to kill workers and shut down operations if the company failed to meet their demands in terms of building roads, air strips and schools (Taylor, 2004). Furthermore, when the government and Rio Tinto failed to amicably address the needs and demands of the landowners of Panguna mine, Bougainville, the locals violently forced mining to close in 1989 and the corporation was forced to leave. This eventually led to corporations' deeply acknowledging and adapting a new approach to stakeholder engagement, where there is open dialogue and understanding between corporations and stakeholders. Thus, the social licence to operate can be seen as an important point of intersection, where societal needs and corporate economic objectives are integrated (Porter & Kramer, 2006), but not necessarily as part of any formal agreement or institutional arrangements. Thus, for example, a MOU that describes the conditions upon which a company may be allowed to operate cannot be regarded as a full and final agreement. Meeting societal needs is an ongoing process of assessment and negotiation through stakeholder engagement.

5.8.2 Pillars of community relations and active partnership

The growing public concern for the negative consequences of corporate activities, such as health and environmental issues, has led to the situation in which business strategies have also evolved over time, reflecting the language and social concerns of the period. In response to these concerns, there has been a significant value shift and a new emerging standard of corporate performance with regards to their community relations and partnerships (e.g., see Knight, 2007). This shift in the idea of stakeholder engagement set a precedent through a new approach to stakeholder governance and social cohesion (Oketch, 2004). In this shift, the aim is to keep interested parties involved by meeting a wide array of shareholders' and stakeholders' interests beyond corporate economic interest, while protecting their (the corporates') interest (Oketch, 2004).

The notion of community is too vague (Mersham et al., 2009). In PNG, community is defined by identifying the tribal organisational structure, such as the clan-based system; for example, people live in a community but are identified with specific clans. This might mean that people make gardens, and they go hunting and fishing within the boundaries of their clans. That also means that if they make gardens or fish on land that does not belong to their clan, it could lead to conflict or tribal fighting, and even death. The clans make up a community and people live together in a specific geographical setting. In this postmodern society, however, the idea of community can be defined by those interested clans on whose land oil and gas is found and who have a specific interest in the project. In a preceding discussion about stakeholder approaches in the theoretical framework of this study, Mersham et al. (2009) used the case of New Zealand Māori to show that good community relations exist through immediate or specific hapu (clan), because they would be in a better position to understand and judge their own environmental problems and the solutions to them. Similarly, understanding social organisational structure and partnering with those groups would create trust and build a relationship with immediate stakeholders and interested communities (Scott & Lane, 2000), as in the case of PNG.

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5.8.3 Two-way communications and mutual respect

Lack of communication has been a major cause of conflict in resource development in PNG. The conflicts have always been associated with social disorder and internal security issues, such as rioting, killing, dislocation and displacement of communities, hostage taking, destroying property, coercion and rape by armed forces, and industrial chemical and toxic spills. These are evident in PNG. Examples are environmental destruction, a decade of armed conflict in Bougainville, and the spilling of cyanide and dangerous industrial chemicals at Ok Tedi mine. All these issues are the result of poor or inadequate communication between the state, corporations and landowners. In most cases, communication is between the government and corporations; however, landowners are invited to the forum only for the signing of the agreement and deciding on financial benefits.

The current approach towards two-way communication and mutual respect can be seen in transformational changes at organisational and legislative levels, thus reflecting an "effective stakeholder dialogue" (e.g., Bendell, 2003, p. 53) between corporations, the government and local landowners. Bendell (2003) says that through effective stakeholder dialogue, issues are raised and resolved, because the dialogue is open, information is shared, and different stakeholders are consulted so a partnership is established. Thus, the current approach towards two-way communication by InterOil Corporation reflects a dimension of stakeholder approach in this oil and gas project.

Wheeler and Elkington (2001) show that any negotiation process that is likely to lead to some kind of compromise or good decision-making must always be based on "two-way dialogue," because it leads to the creation of trust and mutual respect. Traditionally, there are two types of communication: horizontal and vertical. Vertical communication occurs within a particular clan where the chief has the power to decide what is best for his clan. Horizontal communication is more interactional and it occurs amongst various clans. This happens only when there is conflict amongst a number of clans so that amicable solutions are reached. For example, fishing, hunting or gardening within different clan boundaries would stir conflict and that conflict would be resolved through interactional communication among clans. However, traditional, horizontal communication ideally captures the

fundamental principle of popular participation in decision-making processes in a democratic society. This has changed over the years, with postmodernism and the introduction of capitalism. In this postmodern era, government and corporations influence communications and decision-making processes; however, landowners are invited only to sign any agreement and participate in financial or economic benefits coming from the project. Thus, communication and decision-making occur within a top-down approach. However, the current understanding of stakeholder engagement is in the context of Deetz's (2007) conflict-based communication model. In this model, communication is driven by the conflicting interest between different values and agendas; for example, landowner or societal conflict with corporate values. Having better understanding of the complexity of organisational structures and providing avenues for dialogue and consultation create mutually satisfactory decisions between government, corporations and society or landowners.

5.8.4 Development forum and consultation

Finding the best possible way to engage with stakeholders has been problematic in natural resource development in PNG, the reason being that previously the style of managing or governing stakeholders' interests has been between the state and developer or corporations. In this arrangement, the confidence was in the state regulations and managerial stewardship, with minimal public participation in the decision-making process. This has led to a situation where there were systematic distortions of social and economic development and moral and political issues, such as in the example of the case of the Bougainville mine (see Filer et al., 2008). One important issue at that time was that the state and corporations had failed to communicate with stakeholders or the landowners to combine their social values and interests with those of the government and corporations. This issue has become a cornerstone that has given rise to the idea of stakeholder collaboration, open dialogue and consultation, and participation through development forums (see Donaldson & Preston, 1995). In the following quote, one of the managers from the community affairs section attempted to explain this evolving style of stakeholder governance that the company (InterOil) is using to manage conflicting values and interest from all stakeholders:

> We get things sorted and summed up in the forum so we end up with a very amicable agreement where everyone is happy.

A development forum is held to consult with government, corporations and landowners. At the forum, stakeholders sort out their differences, interests, wishes and agendas regarding oil and gas explorations and the benefit coming from them. In rhetoric, the documents analysed, particularly the Oil and Gas Act 1998, conceptualised the idea of the institutional approach to stakeholder engagement, through the conceptualisation of the tribal organisational structures such as the clan-based system, for example. Traditionally, the clan-based system has been used as a traditional institution for conflict resolution, either within a tribe or with enemy tribes. Through this, the issues were collectively addressed and resolved. The integration of traditional institutions with modern economics in the government legislation can be seen as an institutional approach to stakeholder engagement in the Oil and Gas Project. However, the findings, as discussed further below revealed that the government, especially provincial and local government in the project area fail to plan and follow up on their social responsibilities, resulting in confusion in the roles of government and corporate CSR practices. On the other hand, the national government intervenes and participates in the forum through its legislative mechanism such as the OGA 1998, thus provide no clear development plans for corporate CSR.

5.9   Increasing internal migration, alcoholism and HIV/AIDS

Internal migration, alcoholism and HIV/AIDS are direct results of the introduction of a cash economy. This is a commonly held view from both the managers and employees of InterOil Corporation. These issues are anticipated realities of oil and gas or resource development. As the following quote from a manager shows:

> We anticipate for the things like health, there's a likelihood of transmitted diseases, sexual diseases to introduce into these communities; the introduction of cash into these communities has had a huge impact on them, both positive and negative. Negative impacts include the introduction of alcohol, there's not a lot up there, and it has social implications.

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The message is simple, straight and clear. When there is money, there are problems. In business ethics, the principle of utilitarianism says that for every "end" there is a "means." The "means" can either be good or bad, as long as the end is justifiable and equally satisfying for any corporation and for society (Cavanagh et al., 1981). An interview with an employee conveys a similar view:

> I think they've influenced the community with the idea of cash hand-outs so there are now many environmental problems because people see money as important. Also on the other hand there are social and health issues in our community when people turn to look for cash and jobs.

Clearly, money becomes an end in itself, a centre of focus to justify every individual decision. Such decisions relate to the environment, water and land, social and health issues, decisions regarding the negotiation for oil and gas exploration, even individual decisions on whether to exchange sex for money or not or to migrate to project areas or to major centres. All these issues are centred on money and factored into all decision-making processes, either at the individual or the collective level. There is a clear "…logic of capitalics-a politics fueled by global capital" (see Munshi & Kurian, 2007, p. 439). As Munshi and Kurian (2007) stipulate, the Third World states are being lured into accepting money by investors at the expense of their environment, land, water or even their own lives, risking the same fate as their land and environment.

5.10 Environmental practices and reporting

There are on-going health and environmental programs. The company has disclosed its environmental practices and its social responsibilities through its website, but it did not comprehensively report on its environmental practices. However, it (IOC) believes that reports alone are insufficient and would not able to cover all aspects of environmental practices to give clear reports to stakeholders, and so a separate environmental management system is needed to provide a clear framework that captures environmental strategies, goals, and processes to give a good feedback component to the wider stakeholder group at the international level (Reynolds & Yuthas, 2008). The following report from an interview conveys the idea that comprehensive reporting is done via international sustainability reporting frameworks:

We've already carried out baseline studies – ISOs, and undertook health baseline studies for the communities in the upstream, and the baseline studies would be the base for on-going monitoring of health and environmental issues and that would be regularly reported.

The company makes use of International Standardisation of Environmental reporting (ISO). The use of ISO in environmental practices and sustainability reporting is in line with Elkington's (2001, 2006) notion of triple bottom line and sustainability reporting, which include social, economic and environmental aspects of sustainability. The ISO is one of the international sustainability reporting frameworks that provides criteria which corporations can use to assess, monitor and report health and environmental issues associated with projects (Reynolds & Yuthas, 2008). The question is to whom is the reporting made and for what reason are the reports made at the international level? In response to this, a community affairs manager attempted to explain:

The international finance company acts on commission as donors of the bank who lend a huge amount of money to companies and act as signatories and these banks are the ones who set rules on how we interact with local communities and the environment so they lend you the money on the basis that you follow those rules in relation to your local community on equity principles so companies again become important signatories to the International Council of Mining (ICM). Because we are in the global world we not only have our own policy but we follow broad policy otherwise you don't get access to finance so the world is much interconnected but this is just good business.

The inception of global reporting frameworks such as ISO, GRI and others has provided interactional and more comprehensive reporting. These frameworks are made up mainly of the multinational mining corporations, whose activities are destructive to people and the environment. Thus, reporting is one way of complying with the standards set by the international organisation, but it also positively legitimises (e.g., Branco & Rodrigues, 2006; Guthrie & Parker, 1989) corporate positions in relation to communities as well as to the banks or financial

institutions who seem to be the backbone of the operations by multinational corporations. One fundamental principle that underpins such environmental practice is the principle of demand: give and take. That is, corporations comply with the demands of the banks and international financial institutions, because they need loans or financial support for operations. The more positive the corporations are in regards of their social and environmental practices, the higher the chances of their securing financial assistance.

The critics who assessed international reporting frameworks (e.g., Bouten et al., 2011; Reynolds & Yuthas, 2008) think that any report based on an international framework presents more the view of corporations than of stakeholders or affected communities. Although there are positive relationships between corporations and communities, and there is a positive approach to the environment, one of the employees was able to differentiate that most of what is reported is not necessarily from the refinery, but from the exploration site at Wabo. This was described as follows:

> We were told to regularly monitor the waste disposal and how we can practise best and safe ways and this has not been done since the establishment of the company and it's just been done this year and it is still under construction and this site is to build a solid waste disposal site, but from my point of view it hasn't been done.

Whilst environmental practices remain important, a more important point is that the company should meet its economic objectives of making profit. This is a commonly held view from employees as well as the managers, as the following quote from a manager demonstrates:

> …you want to feel like you're part of the community and environment but not the other side, but equal to that, in business anything you do is irrelevant unless you make profit.

Friedman (1950, as cited in Aune, 2007) stated that the social responsibility of a businessperson is to increase their profits. That means that all activities that businesses undertake have to contribute towards them realising their economic

objectives. If business fails this part, then it is regarded as a waste of time and waste of resources and self-defeating to the purpose of its existence. In this study, this is considered important for the survival of InterOil's operations.

5.11   Community services and discretionary duties

In defining their social responsibility, the participants' views can be aligned to Carroll's (1991) philanthropic responsibilities model. The main community responsibilities include activities such as education, health, maintenance of airstrips and road infrastructure, clean water supply and charitable giving. According to Carroll (1991), these are corporate responsibilities. Most of the programs in community services are part of either corporations' or the government's development programs and policies; however, the approaches were based on specific programs attached to a short time span and were delivered especially to affected stakeholders or landowner communities only. Critics of philanthropic activities have argued that such short-lived programs are not necessarily part of institutional policy goals, of either corporations or governments (Diener & Seligman, 2004; Freeman & Velamuri, 2006; Kim & Reber, 2008).

This idea was associated with the government maintaining a hands-off approach, attempting to allow or foster private sector initiatives for economic growth, and job creation and letting or leaving the private enterprise or corporations alone to provide basic services such as health, education and road infrastructure to affected communities. In effect, government has emphasised individual responsibility, rather than a collective approach. The government failed to fulfil its legally mandated obligations on health, education and social services but maintained a tight approach to financial benefits. One of the critics argued that this is an abuse of social contractual obligations, a self-defeating approach to the idea of partnership and participation; that is, any partnership established through a contract between the state and corporations must not be seen as a substitute for the traditional role of government (Oketch, 2004). In the interview response below, a community affairs manager conveys this idea:

> We are not a charity and we are not the government and each of them has
> their own areas of responsibility but from the company side of it, as a

good corporate citizen or as part of discretion, we do but the problems come about in the community when government doesn't do their job and so they look to the business to do it and that's where inappropriate programmes and confusion come in so, as much as we'd like to help with the programs of education and health, it's not our job, yeah, so we like to be part of it but we don't own it, it's part of government so that's a bit of confusion in what we do.

The hope is that corporations and more external investment in oil and gas projects will generate economic growth and prosperity for the affected communities, the provincial and local-level government, and the wider community. However, leaving corporations alone to provide services as part of a hands-off approach, results in ill-conceived development plans and distorted programs or activities, which create growing social inequalities and disparities in project areas. The issue is the government's inability to clearly articulate its social policies and development plans, which are obviously lacking at this point. This approach provides no sense of direction and no holistic approach to societal values, economic values or objectives. One of the community affairs managers attempted to explain this in the following quote:

There's a general lack of planning; in policy and planning there's very little input from national and provincial government. An example is that of Lihir government and Ramu Nickel, there's no clear guideline though we have the Oil and Gas Act, it's very vague and full of potholes or loopholes. Ah, in theory I have but in our case we have very little input from both the national government and the provincial government. Being a national project, we should have a full time TPE (representative) person working with us.

As a regulator of businesses, the government fails to provide a clear direction to companies. It is clearly evidenced in the given quote. In such cases, the critics of CSR (e.g., Cheney, et al., 2007) argue that CSR risks the fate of being labelled and communicated depending on the situations and context in which companies are operating. In case of PNG, companies could use government's inability to communicate CSR from strategic views in relation to their (companies) economic

interest. The given quote reflects the position of corporations in oil and gas development. One obvious issue noted in the quote and that needs attention is the issue of an imbalance or overlap of responsibilities (L'Etang, 2009) between the state and corporations to effectively deliver or meet social needs and aspirations, not only to affected communities but in solving any conflict of interests from wider society. Although there is a significant shift towards CSR practices, it also lacks clear directions at the institutional and policy level.

5.12   Summary discussions

As noted above, the legacy of crises associated with corporate social responsibility has become an important cornerstone for the current definition and practices of corporate social responsibility in oil and gas exploration, or any other resource development for that matter, in PNG. This has also shifted organisations' approaches to their social responsibility practices, where there is a deep recognition and integration of social values, economic values and traditional organisational structure (clan) with government regulations. A general consensus is that economic values or objectives can be maximised through shared values and, on the same note, associated ethical issues can be managed. This is considered important, because by doing so corporations think it helps them continue their operations. In the case of increased benefits to the affected areas, for example, meeting affected landowners' social and economic needs, the needs of surrounding communities, and government requirements are primarily associated with financial benefits and philanthropic activities, and are often considered important with regards to integrating all values – social, economic and political.

Also, the value-based approach to CSR is considered important to companies, because it helps them to prioritise specific needs and issues so that the resources are distributed accordingly; for example, clans were specifically identified and economic benefits were redistributed, rather than spending unnecessarily on broader issues. On the other hand, the government has emphasised individual or specific clans rather than collectively engaging with wider society. It has neither realised the importance of social values nor interpreted corporate approaches or practices as creating value or building relationships; social values and economic values were all monetised in terms of financial benefits. The onus is then being shifted onto corporations, while the government has operated seemingly in

isolation, which was clearly indicated by a lack of clear planning at policy and institutional levels of government - national and the affected provincial and local-level government - in the project areas. The government, instead, intervenes through its legal mechanisms such as the Oil and Gas Act 1998.

The legal compliance or responsibility is the second view of CSR, associated primarily with the fiduciary obligations (e.g., Seeger & Hipfel, 2007) of corporate external stakeholders, such as the banks or International Financial Institutions (IFI) and PNG's Oil and Gas Act (OGA, 1998), primarily to maintain continuity of the operations. The main idea is that by complying with fiduciary obligations, according to banks and IFI for example, the company's operations in the affected communities are based on the principle of equity, fairness and justice in its environmental practices and reporting. Although complying with the laws, the OGA 1998 and the banks and IFIs' requirements can be seen as part of an approach to gain legitimacy and support, it was deeply acknowledged as an important social responsibility. In essence, it is believed that complying with and meeting legal requirements affirms their relationship with their stakeholders: government, banks and IFIs, and landowners.

There is a comprehensive approach to stakeholder engagement, a more institutional approach, involving corporations, government institutions (provincial and local government), banks and IFIs, and community institutions such as clan-based organisations. The main focus of stakeholder engagement is to create a partnership with local landowners or affected communities and to participate effectively. Thus effective participation is believed to be possible through arranged institutions, such as clan-based systems, legislative frameworks and integration of corporate values.

In issues of environmental responsibility discussed above, for example, corporations meet their fiduciary obligations to external stakeholders and, in turn, seek to meet stakeholders' legitimate requirements in order to retain access to financial support and rights to legal permission or operating licences. This might have influenced the extent of corporate environmental practices and reporting; for example, the ISO is considered an important framework and is currently being used to monitor and report all environmental practices at the international level.

The opposing view is that there is no clear local reporting framework and, in fact, it is reported in IOC's annual report that it does not have any specific policy at the local level; instead, corporations have relied on legal mechanisms and IFIs' social and environmental requirements. The government's inability or lack of support in terms of providing social policy and proper development planning may have also contributed to this.

The community activities and discretionary duties, such as health and education services and road infrastructure, were considered important philanthropic responsibilities, but most of the programs and activities were attached to short-span programs, especially targeted to landowners and affected communities. Most of the program reported is not part of the government's plans and policies, or corporate policy goals. As discussed earlier, the government has maintained its individualistic position but often intervenes through laws such the OGA 1998. The hope is that corporations and more external investment in oil and gas projects will generate economic growth and prosperity for the affected communities, provincial and local-level government and wider community. Adapting a hands-off approach, coupled with ill-conceived development programs and lack of comprehensive development plans and social policy, has clearly resulted in distorted development programs, plans and activities. In effect, government has emphasised individual responsibility, rather than a collective approach. It seems that government has failed to fulfil its legally mandated obligations on health, education and social services but has maintained a tight approach to redistributing financial benefits from oil and gas, with specific attention to immediate clans or project landowners. For that reason, the corporations were expected to meet all the economic and social needs of affected communities and landowners. As discussed earlier, the hope is that more corporate or external investment would lead to economic development and prosperity for landowners or wider society. This approach seems to have influenced the decision-making processes, either at the individual or political level, coupled with significant ethical issues such as health and HIV issues, alcoholism and social disorder.

CHAPTER 6 CONCLUSION

6.1   Introduction

This thesis offers a study on the concept of corporate social responsibility using different theories, approaches and responsibilities constituting CSR (discussed in Chapter 2) to assess corporate CSR practices from the perspective of PNG, through the case of InterOil Corporation, in the oil and gas industry. Through in-depth analysis of interview responses and document analysis in Chapter 4, this thesis explored the extent to which the concept of corporate social responsibility is defined and articulated by corporations in PNG. This chapter presents conclusions to the research through assessing the application of the CSR model discussed in Chapter 2, with regards to main research questions. This chapter addresses four things:

(1) I return to look at the research questions in relation to data analysed and discussed

(2) Provide implications for policy development and best practices for CSR in PNG

(3) State implications and contributions to the theoretical views of CSR

(4) Discuss implications for further research

Overall, the research addresses a research gap in the field of corporate social responsibility, specifically from the perspective of corporations in PNG, where no major research assessing the definition and practices of the concept of CSR has been carried out from the perspective of corporations.

6.2 Returning to the research questions

This part discusses the position of the three research questions in relation to data analysed and discussed in preceding chapters. The discussion of the research questions summarises the extent to which the corporations are defining and articulating their social responsibilities.

Question 1: What is the definition of CSR from the perspective of corporations (i.e. how they understand, define and practice it)?

There is a strong understanding that corporate social responsibility practices hinge on clear knowledge of corporate moral imperatives and redistribution of economic benefits from the Oil and Gas Project. This understanding has shaped and is reshaping the corporate approach to the definitions, views and practices of CSR. This understanding is conceptualised and implemented through an institutional approach that involves value integrations or shared values and interests: economic, social and political.

An analysis of official documents, particularly, the Oil and Gas Act (1998), provides a rhetorical position and a legislative view of an institutional approach to the definition and practices of CSR. The main issues addressed by the Oil and Gas Act are the issues of ownership, participation and redistribution of the economic benefits to key stakeholders involved in the project. The OGA 1998 sets parameters for an institutional approach; for example, it has recognised the significance of tribal organisational institutions such as the clan-based system, and corporate economic interest with the government's service delivery institutions such as provincial and local-level government in the project area. In addition, though to a lesser extent, the Environmental Act 2000 deliberated on institutional approaches to corporate moral responsibilities. The main message echoed in the document analysis is on the idea of managing moral imperatives and simultaneous redistribution of economic benefits through an institutional approach.

Similarly, the interviews demonstrated that the corporation's (InterOil's) views and understanding of CSR tended to focus on moral imperatives and redistribution of economic benefits. The legislative or institutional approach is considered an

important way that integrates all values and interests: economic, social and political. According to the company (InterOil), the economic aspect of CSR is institutionally an integral part of legal obligations. That is, by law, for example, in compliance to the Oil and Gas Act (1998), InterOil contributes to economic development at the national level. Similarly, by using tribal institutions such as clan-based structures, InterOil redistributes economic benefits to affected land owning communities. The notion of CSR has tended to be seen as a foreign idea, particularly by local landowners, but even this tended to be seen in other forms of benefit redistribution, such as training, employment and economic benefits in terms of royalty and compensation payments.

The main concern raised is with regards to issues of sustainability in the operations of InterOil, but it is seen manageable through integration of institutional values and requirements by way of complying with the laws and meeting the legal requirements from external stakeholders, particularly the state legislation such as the Oil and Gas Act (1998), and the banks and International Financial Institutions' (IFI) Acts. The approach to legal compliance has transpired through a signing of an agreement between InterOil and the government, and it is defined as an important aspect of CSR practices, because it is through this agreement that different values and interests are integrated.

Similar views were also given in terms of stakeholder engagement, which is through institutional integrations such as integration of clan-based structure and the government institutions: at provincial and local level-level government at the project area. This is considered an important approach that integrates all values and promotes effective participation. The institutional approach to stakeholder engagement was clearly shown in company's (InterOil's) approach to its moral and social obligations. That is, within the institutional framework of sustainability practices and reporting, such as ISO, InterOil has carried out its health and environmental assessment and reported to the banks and IFIs. Similarly, most of community services were seen as being easily distributed to the affected land owning communities through traditional institutions, such as the clan-based approach.

It is clear that the views, understanding and the practices of CSR were articulated through institutional approaches and practices that integrate values of all stakeholders involved in the Oil and Gas Project. The institutional approach not only integrates stakeholders' values but it has also provided an important framework for InterOil to manage its moral imperatives and redistribute economic benefits to specific stakeholders, rather than wasting resources on broad stakeholders.

Question 2: What is the impact of varying definitions of CSR on the stakeholders' participation?

The main focus of the definition of CSR is on managing moral imperatives and redistribution of economic benefits. All the aspects and fundamental principles constituting the concept of CSR, such as economic, legal obligations, moral issues and philanthropic activities, were raised in interviews, demonstrating a strong understanding of CSR in the PNG context. As noted earlier, there was some misunderstanding, especially by local landowners, but it has very little or no impact on the practices of CSR. The landowners were, instead, trained and employed with InterOil, as part of benefit redistribution and stakeholder participation. The main focus for landowners and provincial and local government in the project area was economic benefits in terms of cash or compensation money, rather than social and environmental values. This focus on economic benefits has also influenced decisions, either at individual or collective levels.

Question 3: How does it (CSR) promote productive/meaningful participation amongst the stakeholders' (corporations, the state and community)?

As will be clear from the discussions in question 1, the idea of meaningful participation in the Oil and Gas Project, or any other resource development in PNG, is through integration of economic, social and political values, through an institutional approach. The clan-based approach, for example, was used to identify specific landowners and allow them to effectively or meaningfully participate in resource development. Through this approach, the access and redistribution of benefits were allocated to specific landowners. The landowners were engaged through businesses, examples being the clan-based umbrella companies and spin-

off business opportunities to affected communities. Furthermore, landowners were given educational training and engaged through other community activities. In addition, any issues or conflicts of interest relating to the project were easily resolved through institutional ways. A greater concern for stakeholders' needs indicates a style of stakeholder governance that involves a more participatory approach through open dialogue and consultation and is more dialectical.

On the part of the company (InterOil), meaningful participation is through keeping to, or complying with, the laws such as the OGA 1998 and banks or IFIs' Acts with regards to its community approach, environmental practices and reporting of CSR practices. InterOil may have different views on the idea of compliance; for example, it may want to secure legal permission or financial access to IFIs, but this had provided a meaningful participation in the idea of CSR practices. On the other hand, the government had maintained an isolated approach but intervened through its legislative mechanisms, such as the OGA 1998, to facilitate a development forum for stakeholder participation.

6.3   Implication for policy and implementation

Corporate social responsibility has become an important part of corporate boardroom discussions. It addresses important issues around benefit redistribution and moral imperatives to communities. However, it lacks a good policy to promote or implement the activities or responsibilities (see Diener & Seligman, 2004; Freeman & Velamuri, 2006; Mersham et al., 2009). Similarly, the documents analysed, particularly InterOil's web-based annual reports, revealed that the company (IOC) does not have any specific policy to implement its social responsibility; instead, it relied on the Oil and Gas Act (1998) to implement its social responsibility. Furthermore, the interviews demonstrated that there was a lack of planning at the institutional and policy levels.

The state seems to maintain a hands-off policy, or has given very little support to the company (InterOil). Consequently, it provides no guidelines that could translate legislation or laws such as the Oil and Gas Act (1998) into policy options that could be implemented. The views of the company (InterOil), as discussed earlier in Chapter 4 and Chapter 5 of this thesis, make it very clear that there is no clear plan or policy, either at the national level or at the provincial and local

government level where the project is. For that reason, the government maintains isolation but intervenes through the Oil and Gas Act and expects the company (IOC) to implement the Act. On the other hand, the company (InterOil) relies on the broad policy frameworks from IFIs or the banks for its CSR practices. Although the Oil and Gas Act (1998) is currently being used as an important legislative framework to guide CSR practices, it clearly lacks scope to cover wider aspects of CSR practices. As a result of this, there is confusion or overlap of social responsibility between the constitutional role of the government and corporate social responsibility. As such, this overlap of responsibilities has created inappropriate development programs, which are the result of confusion over the delineation of the roles of government and corporations.

This study found that the current approach to CSR is more institutional and value-based: economic, social and political. The integration of all values, however, needs clear social policy and integration of development plans and activities at the institutional levels. That is, it needs a coherent development plan, and integration of the national development plans with provincial and local level government in the project area with that of the corporations. This could help address the issues of inappropriate development programs in the project area and in turn could contribute towards institutional strengthening.

6.4   Implication for theory

This research provides empirical evidence of how the concept of corporate social responsibility is defined and practiced by corporations in PNG, using the case of InterOil Corporation. The theoretical model, approaches and responsibilities of CSR discussed in Chapter 2 was used to assess the views and understanding of participants, with regards to their CSR practices. Whether or not the notion of CSR is well understood by corporations, the evidence indicates that there are significant shifts by corporations towards CSR. This shift is evidenced with the application of a number of theories discussed in Chapter 2. For example, the notion of stakeholder and stakeholder governance promotes a dialectical approach, where there is open dialogue and consultation amongst all stakeholders. This is evident in the Oil and Gas Project. Furthermore, the practices such as development forums and MOA provide an understanding of the notion of social

contract. Overall, the research provides a conceptual understanding of CSR practices in the Oil and Gas Project in PNG.

6.5 Implications for further research

Associated misunderstanding and lack of planning at the institutional and policy level amongst the main stakeholders - the state and corporations - make CSR ad hoc. Good planning and policy options for CSR would be beneficial for the sustainability of the services provided by corporations. Strong CSR practices must be based on well-articulated development plans and policy that integrates not only the legislative framework but also the national development plans with the plans from the affected provincial and local government in the project area. Also, the literature reviewed noted that the idea of CSR is a new and evolving concept in PNG. Thus, it is important that the state institutions, especially the national, provincial and local governments, understand clearly the importance of CSR and design it within the development plans. The argument put forward is that the government institutions - national, provincial and local governments - seem to maintain a hands-off approach and rely on corporations. This creates a situation where there are inappropriate development programs caused by confusion of the constitutional roles of the state with that of corporate social responsibility.

This research encourages more research to be done, not only from the perspective of corporations but also from that of all institutions- the state, community and landowners. No major research has been conducted in terms of understanding CSR from the corporate perspective. This research would recommend a further review of the Oil and Gas Act and to translate specific sections analysed earlier into more systematic development plans or policies that could be implemented separately as part of CSR. Furthermore, similar case studies from other developing nations would test the validity of extrapolating the findings of this study to a global scale.

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Appendix A: Information Sheet and Research Questionnaires

Information

Thank you for reading this information. This research is being undertaken for a Masters thesis in the University of Waikato's Department of Management and Communication under the supervision of Professor Juliet Roper and Associate Professor Debashish Munshi. The researcher is Michael George, recipient of a scholarship administered by the New Zealand Ministry of Foreign Affairs and Trade under its Aid Program. The research has two parts: Part A is the interview/discussions and is confidential. Part B is document analysis. You will be asked to participate individually or in a group and it should take 20 to 30 minutes. Most questions are open-ended.

Part A: Interview/discussions

Interviews will focus on three groups of participants within the community affairs section/division of your organization: (1) Managers - i.e. corporate affairs managers or community advisors, (2) Team leader/supervisors and, (3) Employees. Through these interviews the research aims to learn about current CSR practices in your organization. Participation in the interviews is voluntary and responses will remain confidential. Participants will not be identified in the thesis by their names or specific title; instead they will be referred to by pseudonyms. Raw data collected from the interview will be kept under secure storage (in the form of locked storage and password-protected computers) to be accessed by the researcher and the supervisors only. The data will be kept one year beyond the duration of the study.

PART B: Document Analysis

This will include reviewing and analysing publicly available documents on corporate environmental or social performances and reporting, financial reporting and community services, market and competitions. This is aimed at gathering additional information about the current practices of CSR from corporate perspective.

While the thesis is the main avenue for reporting the results, conferences/seminars/journals are also possible avenues for reporting the results. A summary of results may also be released to interested participants upon request. Should you have any questions or require further information, please contact Michael George (researcher) on mobile: (+ 64) 0220915259, Email: mgg12@waikato.ac.nz or Professor Juliet Roper on Ph: (64 7) 838 4142, Email: jroper@waikato.ac.nz or Associate Professor Debashish Munshi on Ph: (64 7) 838 4450, Email: munshi@waikato.ac.nz ((Dept. of Management Communication, The University of Waikato, Private Bag 3105, Hamilton, New Zealand).

Thank you for your time.

Michael George (Masters Student in Management Studies)

QUESTIONNAIRES FOR MANAGERS

Background

Gender:

- Male
- Female

Age:

- 18-30
- 31-40
- 41-50
- 50 over

Designation/Position: …………………..

Number of years working:

- 1-5
- 6-10
- 11-15
- 16 over

Definition of Corporate Social Responsibility (CSR)

- How do you define or understand the concept of Corporate Social Responsibility? Describe in your own words.

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- In what ways do you think CSR becomes meaningful to corporations and its stakeholders? State and briefly discuss them.

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- What do you think about stakeholder engagement?

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- How do you productively engage your stakeholders using CSR? State and briefly discuss

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- Do you think CSR practices promote development that is sustainable? Briefly explain

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- How do you establish partnership with the state, community/land owners and other stakeholders in resource development? Briefly explain

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- What do you think about social reporting responsibility reporting? (Which is the most convent ways for your reporting, print report or web-reporting? What is the standard or guidelines for your reporting?)

- Is there any factor or factors influencing or influences companies' social responsibilities practices/how companies formulate and implement its social responsibilities.

Background

Gender:

- Male
- Female

Age:

- 18-30
- 31-40
- 41-50
- 50 over

Designation/Position: ………………….

Number of years working:

- 1-5
- 6-10
- 11-15
- 16 over

Questions will be asked along these broad line and participants will be requested to elaborate on these. The questions will be open-ended and designed to elicit qualitative responses.

Q1. Do you think organisations/corporations should do Corporate Social Responsibility reporting?

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Q2. In what way (s) do you think Corporate Social Responsibility is best reported? (State and briefly discuss on the space provided below).

- Economic
- Social/ethical (practices that fair, just and right for corporations as well as the society)
- Environmental
- Financial

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- Philanthropic/discretionary duties (such as donations, charity giving, building schools, health services and road infrastructure)

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Q3. Do you think Corporate Social Responsibility is sustainable practice and why?

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Q5. To what extent do you think Corporate Social Responsibility can be used to negotiate corporate operations in   resource development with stakeholders (i.e. State, community/public, and other stakeholders)?

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Q6. Whose interest is Corporate Social Responsibility? (State and briefly discuss on the space below).

- Corporations
- Community
- State
- Other stakeholders
- All of the above

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Q7. What is your opinion about Corporate Social Responsibility practices? (State and briefly discuss on the space provided below).

- It is a business strategy
- Dishonest practices (such as Green-wash)
- Promotes corporate interest
- Focus only on people who have direct impact on the organisations (immediate stakeholders)
- Promotes all interests (i.e. corporation, state, community and other stakeholders)

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Q8. How would you define Corporate Social Responsibility?

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Q9. To what extent do you think Corporate Social Responsibility practices influence meaningful participation between corporations, community, the state and other stakeholders?

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Q10. Which of the following do you think would be the best options to improve Corporate Social Responsibility practices and minimise problems associated with CSR practices? (State and briefly discuss on the space provided below).

- Institutionalise CSR with host country's social policy and regulatory framework/mechanism
- Localise CSR from the perspective of local community (s)
- Should be based on corporate, state and public views of CSR practices
- Effectively promote as a business issue management strategy
- Leave it up to state to regulate
- Leave it up to corporations/business to operate

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Briefly discuss Corporate Social Responsibility practices in your own words

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Appendix B: Research Consent Form

I have read the **Information Sheet for Participants** for this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study at any time, or to decline to answer any particular questions in the study. I agree to provide information to the researchers under the conditions of confidentiality set out on the **Information Sheet**.

I agree to participate in this study under the conditions set out in the **Information Sheet** form.

Signed: _____

Name: _____

Date: _____

Researcher's Name and contact information:

Michael George

5/34 Hogan Street, Hamilton East, New Zealand

Mobile: (+64) 0220915259 or Digicel-PNG: (+675) 72821041

Email: mgg12@waikato.ac.nz or mgeorge.nri@gmail.com

Supervisor's Name and contact information:

Dr. Juliet Roper
Professor – Management Communication
Telephone: (64 7) 838 4142
Email: jroper@waikato.ac.nz

Dr. Debashish Munshi

Associate Professor – Management Communication

Telephone: (64 7) 838 4450

Email: munshi@waikato.ac.nz

Appendix C: Letter

Michael George

Hogan Street, Hamilton East, New Zealand

Ph: (+64) 0220915259 or Digicel-PNG: (+675) 72821041

Email: mgg12@waikato.ac.nz or mgeorge.nri@gmail.com

The Community Affairs Manager – Mr Weber

InterOil Corporation (Upstream Division)

P.O.Box 1971, Port Moresby, NCD

Papua New Guinea

Dear Mr Weber,

Subject: Request to conduct research with your organisation for academic purposes

Introduction

I (Michael George) am a student from Papua New Guinea (PNG), currently doing my Post graduate-Master of Management Studies (MMS) at the University of Waikato, Hamilton, New Zealand. I am writing to follow up our earlier email discussion regarding my interest in conducting research with your organisation for academic purposes.

My study proposes to look at the concept of "**Corporate Social Responsibility" (CSR)** from a corporate perspective. The purpose of this study is to fulfil an academic requirement at the post-graduate level. However, this study is also significant and would be of relevance to any organisations or corporations with a concern for CSR.

Significance and background of study

This study is timely and significant in many ways. One is that in this globalised world, organisations, either public or private, operate in contexts that are increasingly complex and uncertain. That is, organisations are faced with issues that are global in nature, such as environmental and legal issues, increasing NGOs and activism and emerging sub-politics, leading to strong public criticism and political scrutiny of their operations, thus seems to be threatening the long term sustainability.

Operating in such complex environment imposed by factors as highlighted above, organisations have always been faced with the task of identifying and managing potential risk and issues arising from the society as well as from the government. This study would like to look into this, based on the premise that well defined and proper articulation of the concept of CSR at the corporate and management level would be an important managerial tool for managing risk arising from within the organisations as well as from the outside.

This study is also important in the sense that it shows that the lack of proper articulation of the concept of CSR has always led to the situation whereby the corporations have been leading in providing basic services to the community, supposedly in place of government and the government on the other hand seems to be operating in isolation. Through the concept of CSR, this study will be looking at the complexity surrounding government, society and the corporations and would explore the extent to which corporations could effectively involve government and society to minimise potential risks and contribute towards sustainability and sustainable development in the broader sense.

Purpose of letter

I would very much value your permission to conduct this study in your organisation. The research will be carried out through a survey of employees and managers, followed by selected interviews. If you are open to this proposal, could you please provide the contact details of a contact person through whom I can work? I am currently in New Zealand but will return to PNG to conduct this research.

Timeframe

I hope to commence data collection on 3rd June and complete by 25th of July 2012. I'll be leaving New Zealand and arrive in PNG in late May. I would be very happy to share the results of this research with you and your company. Thank you for your assistance in arranging for me to do research with your organisation within this time period.

Should you have any questions or require further information, please contact Michael George (researcher) on mobile: (+ 64) 0220915259/ (675) 72821041, Email: mgg12@waikato.ac.nz /mgeorge.nri@gmail.com or Professor Juliet Roper on Ph: (+64 7) 838 4142, Email: jroper@waikato.ac.nz or Associate Professor Debashish Munshi on Ph: (+64 7) 838 4450, Email: munshi@waikato.ac.nz

Your assistance towards this research is greatly appreciated. Once again thank you for your assistance and I am looking forward to working with you.

Yours Sincerely,

....

Michael George (Student)

Appendix D: Supervisors' Support Letter

12 April 2012

<u>Michael George</u>

This letter is in support of Michael George, a Masters thesis student who is under my supervision at the University of Waikato.

Michael is a citizen of Papua New Guinea. He is keen to conduct research in his home country on the topic of Corporate Social Responsibility. I fully endorse his research proposal.

I would be very grateful if you could help Michael obtain the data - through surveys and interviews - required for his research. Such data collection will be conducted according to the principles set out by the University of Waikato standards for ethical research.

Regards

………………..

Juliet Roper

Professor and Chairperson