Introduction

I begin this introduction with a short story about a crisis that happened to Australia’s largest mining company. The crisis occurred around the time that globalisation was becoming the subject of intense debate among academics, journalists and social commentators. The company in question is The Broken Hill Proprietary Limited (BHP).¹

BHP merged with Anglo-Dutch company Billiton in 2001. The merged entity became known as BHP Billiton. At the time, it was the largest in the history of the industry. It capped off a thirty-year plan by BHP to become a global mining giant. The merged company is now the largest diversified mining company in the world. Currently, the company has a market capitalisation of US$176 billion and revenues of US$67.2 billion (BHP, 2014: 4). As of 2014, the company has 31 active mines in 12 countries. These include nine oil and gas operations, five copper mines, two iron ore mines, seven coal mines, and eight aluminium, manganese and nickel mines (BHP, 2014: 6–7).

Until the 1980s, BHP had a predominantly Australian focus, centred on its operations at Broken Hill in New South Wales. After that, it began to globalise. It acquired coal mines in New Mexico and discovered huge reserves of copper in Chile (the Escondida Mine). In 1980, after Kennecott Copper failed to reach an agreement with the government of Papua New Guinea (PNG), BHP stepped in and was able to gain approval to mine gold and copper on Mount Fubilan in the Western Province of the country.

BHP put together an international consortium. This included Amoco and a number of small West German companies. The initial agreement gave both BHP and Amoco a 30 per cent share in the project. The West German companies held a 20 per cent share. The PNG government held the remaining 20 per cent. At the time, it was the PNG government’s largest income stream. Ok Tedi Mining Limited (OTML), as the joint venture came to be known, began mining gold in 1984 and copper in 1987 (Thompson and Macklin, 2010: 192). BHP would later buy out its smaller German partners and they ended up with a 60 per cent interest in the mine (Thompson and Macklin, 2010: 196).
The Ok Tedi mine is located in the Star Mountains, close to the headwaters of the Ok Tedi River. The Ok Tedi River runs parallel to the Fly River for about 200 kilometres, before the two systems merge at D’Albertis Junction. The Fly River then continues some 450 kilometres, before emptying into the Gulf of Papua. The Fly River flood plain covers an area of about 5800 square kilometres. The terrain is mountainous and prone to seismic activity and landslides. The mine itself is situated some 600 kilometres south of the equator and 1800 metres up Mount Fubilan. The rainfall varies in the area. According to BHP, rainfall could be as high as 10 000 millimetres annually, that is, the equivalent of 400 inches of rain a year.

From the outset, the project was plagued with environmental problems. In June 1984, 2700 60-litre drums of sodium cyanide spilled into the Fly River when the barge carrying the drums overturned. This was the largest loss of cyanide into a watercourse in the world. Only 117 drums were recovered. In addition, when a bypass valve malfunctioned five days later, some 1000 cubic metres of untreated cyanide waste discharged into the Ok Tedi River (King, 1997: 97). Of more significance, however, is an avalanche that destroyed the tailings dam and severely impacted on the surrounding ecosystem. Without the option of a workable tailings dam, the company began to dispose of tailings and other waste directly into the river. This included both solid waste, and a cocktail of sulphur and other heavy metals from the mine. The acid used to separate the ore from the waste rock also found its way into the river system.

The OTML project brought jobs and other benefits to the communities in the region. This included schools, medical facilities and other valuable infrastructure. Indeed, it has been an important agent of development for the poor Western Province. Economically, the mine also provided about 10 per cent of PNG’s Gross Domestic Product (GDP). However, the dumping of tailings and other waste into the Ok Tedi River has had a terrible impact on the local region and its inhabitants.

First, waste from the mine has raised the level of the river bed five or six metres and this led to flooding during periods of high rainfall. The flooding also swept away valuable nutrient-rich top soil, making it more difficult for locals to establish gardens and grow food. Periodic flooding has also spread mine waste and other sediment over the nearby forest floor. Second, there has been an estimated 90 per cent reduction in fish stocks and this has led to a shortage of food. Third, the vegetation around the river systems has either died or become severely stressed by the sediment. Some reports suggest that as much as 2725 square kilometres had been affected by it. Fourth, transport on the river is now...
more difficult because of the increased flow rates. Consequently, dredging is now a daily feature of life on the river.\(^4\) Finally, the cultural impact on the 50,000 or so people living in the area has been profound.

A group of landowners began to express concern about the impact of the tailings and waste disposal on the local ecosystem. In response to the situation, locals did four things. They sent a petition to the PNG government and to OTML. They travelled to the Rio Earth Summit to protest the environmental damage. They filed a claim against the company at the International Water Tribunal (IWT). Finally, they sent protest letters to the PNG Prime Minister and to the Prime Minister of Australia, Paul Keating (Gordon, 1997: 143).

At first, they were unsuccessful in either getting BHP to stop polluting the Ok Tedi, or in gaining compensation. BHP simply did not listen. In May and June 1994, an Australian law firm, acting on behalf of locals living in the affected area, brought a class action against BHP in the Melbourne Supreme Court. According to Gordon (1997: 151), one of the lawyers acting for the plaintiffs, ‘Victoria was selected for the four test cases because the plaintiffs wanted Australians to see the damage an Australian company had done to their lands and their lifestyle’.

Right from the start BHP displayed complete indifference to the issue. They failed to lodge their defence on time, and rather than confronting the issue, they tried to get the judge to dismiss the complaints. They also told the plaintiffs that they were happy to fight the case in court, but argued that the plaintiffs had to place AU$2 million dollars into a trust account so that they could pay BHP’s legal bills if they lost the case. This was a problematic play, given the high level of poverty among the local villagers.

More serious was their attempt to manipulate the PNG government. The company was found guilty of criminal contempt for its involvement in drafting legislation in PNG that would jail anyone who publicly objected to the mine or sought compensation. To make matters worse, the company spent a large sum of money trying to persuade the Australian public that the tailings waste was not affecting the river; that the local ecosystem was not under stress; and the plaintiffs were simply vexatious litigators. Eventually, BHP agreed to settle with the plaintiffs and instituted a mine waste management plan to reduce the environmental damage. They also paid compensation to the landowners.

To many, BHP’s behaviour throughout the case was unconscionable and arrogant. The company was criticised by the Australian government, the media and non-governmental organisations. Even comedy shows and media cartoonists poked fun at the company. One cartoonist in particular
noted that they responded to the disaster by launching a ‘massive self-promotion campaign’ (Banks and Ballard, 1997: 2).

While BHP was forced to take responsibility for the disaster, the government of PNG must also shoulder some of the blame. Interested in bringing development to the Western Province, it allowed the mine to operate without an adequate environmental regime in place. Part of the reason for its laxity was the fact that it derived substantial revenues from the mine. The government decided that the environmental damage was an acceptable price to pay for the lucrative revenue stream. Indeed, as BHP pointed out, even when they wanted to leave the project, the PNG government requested the company continue to manage the mine until its closure date. Eventually, BHP divested itself of the asset and placed the proceeds of the sale in a development fund in the Netherlands.

BHP now admits that it failed to consult with the affected communities. It also decided to end its policy of disposing of tailings into local river systems. However, what lessons have been learned from this debacle is unclear. In 2000, the company was seriously investigating the possibility of mining a large nickel deposit on Gag Island, off the coast of Irian Jaya. They were exploring the possibility of disposing the tailings waste at sea, in an area that the United Nations Educational, Scientific and Cultural Organization (UNESCO) was considering for a world heritage listing. Given concerns about this project from BHP’s own shareholders, it is perhaps a blessing that the Indonesian government stepped in and enacted a forestry law, which meant that it prevented any further mining activity on the island. Otherwise, BHP might have found itself at the centre of another environmental disaster and another difficult reputational crisis.

There are a couple of coincidences with the environmental problems BHP experienced at the Ok Tedi mine. First, the Brundtland Report was released in 1987, at a time when BHP began to experience problems. The report argued that contemporary resource usage should not be so aggressive that it compromises the ability of future generations to have access to these same resources. Underlying this message was an environmental one. MNCs could no longer exploit the earth’s natural resources with impunity, or leave a terrible environmental legacy for future generations. Unfortunately, BHP had done both. It had destroyed the area surrounding the two river systems in PNG and undermined the capacity of the children of locals to enjoy their traditional lands in the way that their parents and grandparents had done. In essence, the Brundtland Report painted companies like BHP as greedy and rapacious, happy to ignore the needs of future generations in the pursuit of profits today.
Second, the determination of BHP to become a global player in the mining industry dovetailed with the emergence of globalisation. Globalisation is a term used to explain the political, economic, cultural and technical changes that were taking place around the world during the late 1980s and early 1990s. Most definitions revolve around thinking about the world as a single place, and the fact that new communications technologies were beginning to link the distant corners of the earth. Add computer power and access to new sources of information and you have a revolution of historical proportions, Moss Kanter’s (cited in Scholte, 1997: 15) playful notion that ‘[t]he world is becoming a global shopping mall in which ideas and products are available everywhere at the same time…’ nicely captures the impact of globalisation on contemporary politics. Also terms like ‘globalism’, ‘global society’, global commons’ or even ‘planetary politics’, made their debut during this important period. The collapse of the Soviet Union and the end of communism further heightened the sense that the world had become a very different place than it had been for those who had lived through the 1950s, 1960s and 1970s. BHP’s expansion plans ran into the headwinds of globalisation. It was a game-changer for them, as it was for all large multinational corporations (MNCs). Perhaps the best evidence of this is that BHP was the first large MNC to be sued by people living in another sovereign state. This was a sign that globalisation was beginning to undermine the protection that sovereign borders once offered to companies like BHP.

BHP and the OK Tedi disaster is a good example of a company caught between two eras. Drop 80 million tonnes of waste into a river system in the 1940s and nobody would, in all likelihood, have blinked an eye. Do it during the era of globalisation, and the company becomes a pariah, with serious reputational issues to contend with.

Globalisation has profoundly changed the way that MNCs conduct business. In response to it, most companies now have corporate social responsibility (CSR) initiatives, work hard to integrate into the communities in which they operate, and are now more aware of the impact of their activities on communities than ever before. BHP Billiton now has part of its website devoted to its social and environmental commitments. There is now a very large body of literature on various aspects of CSR. Some writers are critical of the concept, while others see a real tangible shift in corporate thinking. Ellis (2012) highlights the extent to which MNCs are now building sustainable business success through innovation and entrepreneurship. She refers to these companies as ‘the new pioneers’. These pioneers are ‘this century’s generation of visionary leaders, social entrepreneurs and social intrapreneurs that are turning the doom
and gloom of current global challenges into new business opportunities and sustainable ways of creating value’ (Ellis, 2012: xxiv).

Pioneering MNCs are now realising that there are considerable benefits in becoming a self-regulating corporation. These benefits include, among other things, an increase in market share, improved environmental performance and, most importantly of all, a reduction in reputation risk. In the future, those MNCs that do not self-regulate will be left behind by those that do.

The idea that MNCs have a capacity for self-regulation is provocative. Certainly, many non-governmental organisations (NGOs) and activist groups would take issue with this proposition. I examine the arguments of these groups at various points in the first three chapters. I argue that while many of their arguments are problematic, they are a key reason why MNCs are now moving in the direction of corporate self-regulation.

Unfortunately, these NGOs and activist groups are never able to get beyond a negative view of MNCs and, in many ways, have not fully comprehended their success in changing the behaviour of MNCs over time. What they have been extremely effective at doing is politicising the corporate reputations of these large companies. That is, they have had a disciplining effect on MNC behaviour. In effect, activist pressure has caused MNCs to adjust their behaviour to a new commercial and social reality. As a consequence, I argue that corporate self-regulation is the next step in the evolution of business–society relations.

The book is divided into two parts. The first part is largely theoretical. I highlight the shortcomings in the activist understanding of business–society relations and explore how corporate reputation is changing the way that MNCs think about their interactions with society. In addition, I examine various forms of regulation, including command and control, industry self-regulation and corporate self-regulation. I defend the latter notion against its critics.

The second half of the book examines the way three individual MNCs have dealt with the challenge of corporate self-regulation. These are Royal Dutch Shell, the Toyota Motor Corporation and Interface Inc. The choice of cases is important. First, with the exception of perhaps the chemical industry, the oil industry, automotive industry and the carpet industry are the worst polluting industries in the world. For example, the oil industry has the highest level of greenhouse gas, methane and sulphur emissions. In addition, it produces more hazardous waste than most other industries combined. In addition, the automotive industry is linked to high levels of pollution, road deaths, and a high use of raw materials, including steel, iron, rubber, copper and rare earth minerals. Similarly, hundreds of thousands of tonnes of used carpet go to landfill each year.
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As a petroleum by-product, it does not begin to break down for decades. Second, each of the companies has a unique story to tell about their efforts to move toward corporate self-regulation. The first two cases faced serious crises along the way. This severely dented their reputations. Their rehabilitation is worth discussing on its own terms. The third case is crisis free, but no less compelling. It is a story of a company that has systematically changed its philosophy, manufacturing processes and relationship to the environment. As a consequence, it has gained unparalleled respect in the business community. The world’s largest company, Walmart, has sought inspiration from Interface. This is a company that seeks to have no environment footprint by 2020 and, after that, to become a restorative company, that is, a company that decouples economic activity from nature and begins to heal the earth. Consequently, this book argues that Interface offers the best example of a self-regulating corporation to date. But valuable lessons can also be learned from the experiences of Royal Dutch Shell and the Toyota Motor Corporation. Both these companies became embroiled in terrible corporate crises and had their reputations severely damaged. These crises were both costly and embarrassing. Moreover, neither company reacted to their problems particularly well. So they give us an interesting look at the swings and roundabouts of managing reputational crises.

The conclusion of this book refers to an endangered species of Australian parrot. It is called the night parrot. This little bird is thought to have been extinct since the 1920s. In fact, in a 1970s compendium of Australian birds, it is the only entry without a photograph. The last live capture of the night parrot occurred in 1867 in the Gawler Ranges in South Australia. But it has recently been spotted and photographed by ornithologists in the desert country of Queensland and the Pilbara region in Western Australia. It is a wonderful example of the resilience of nature. But it is also an example of what we owe to the environment. To lose sight of a little bird for almost a century is a great loss. To find this little bird alive and flourishing in the remote parts of Australia is a miracle. I hope that the night parrot becomes an emblem for a new type of company. This is a type of company that many commentators also thought to be extinct, but is re-emerging as a more ethical and responsible organisation.

Finally, corporate self-regulation is a discipline. MNCs are now judged on their capacity to moderate their behaviour in light of community expectations. In the future, MNCs will be more disciplined than they were 20 years ago. The age of MNC profligacy is over. We have anti-corporate activists largely to thank for ushering in a new era of ethical business conduct.
This book is a narrative of change in corporate behaviour over the last twenty years. There is probably no company that will not be challenged in the coming years on social, political and environmental grounds. The lessons from Shell and Toyota offer other companies a blueprint for a shift in thinking. Interface went through tough economic times in trying to realise its environmental vision. That they are now the world’s largest carpet tile manufacturer is testament to the fact that the company had a clear vision and was willing to take a risk.

The book presents challenges to two interest groups. First, it challenges anti-corporate activists to hone the quality of their arguments in relation to MNCs and to understand that they are not all the same, and are certainly not all predators. In many cases, the arguments construct a ‘straw man’. This is not conducive to a mature debate about the impact and value of MNCs to society. Second, it challenges other MNCs to understand the trials and tribulations of the three companies examined in the case studies. In my view, Interface Inc. is a global lighthouse for other companies to be guided by. The argument of this book is that it offers a path for other companies to follow. Consequently, I hope this book will be read by anti-corporate activists and MNCs alike. The goal of the book is to improve the quality of criticism of MNC behaviour, and hopefully to offer some insights into MNCs seeking to improve their relationship with the communities where they operate and to build strong corporate reputations.

NOTES

1. On the history of BHP see Thompson and Macklin (2010).
2. It is also worth pointing out that prior to the dumping, there were a number of commercial fishers operating along the river. They were forced out of business by the damage to the river system.
4. Alex Maun, one of the plaintiffs against BHP, and member of the local Yonggom people, described the impact in the following terms: ‘Fish of all species that lived in the river died and floated up to the surface. Now fish are hardly found in the river. The whole ecosystem is completely dead. The Ok Ted river has been polluted with the sediment from the mine. The river bed has filled up with sediment causing the river level to rise. Sediment has also been deposited along the river banks, leaving a muddy effluent of one metre deep. The Ok Tedi river overflows its banks, depositing waste and sediment along what was the most fertile area for gardening. Instead of enriching the soil so that crops can be grown almost continuously along the edge of the river, the sediment from the mine stops crops from growing at all … The lives of all the people along the Ok Tedi river are a complete disaster’ (cited in Banks and Ballard, 1997: 113–14).
5. However, in 2001, the PNG government passed a bill indemnifying BHP from any further liabilities for the environmental damage caused to the OK Tedi and Fly River systems. In return, BHP placed its 52 per cent stake in the mine into a trust fund for the rehabilitation of the devastated area.