THE BHP AND OK TEDI CASE, 1984-2000: ISSUES, OUTCOMES AND IMPLICATIONS FOR CORPORATE SOCIAL REPORTING

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1. INTRODUCTION

Research indicates that the amount of corporate social disclosures being voluntarily disclosed by corporations in corporate annual reports has increased significantly. Researchers have also considered why corporations are disclosing more voluntary corporate social reporting (CSR) information in these reports. Thus, it is logical to suggest that voluntary corporate social disclosures, financial or non-financial, would only be included if management deemed they were of some benefit to the organization.

1.1. Key Questions

This study examines the CSR practice of BHP Limited’s operations at the Ok Tedi mine in PNG. The controversial nature of the Ok Tedi operations means that CSR may have played an important role in discharging (or otherwise) BHP’s social and environmental accountabilities. In addressing the case study, three fundamental questions are investigated: where, how, and why did BHP disclose CSR information?

2. THE PURPOSE AND CONTRIBUTION OF THE STUDY

The potential importance of CSR practice in the context of major social and environmental incidents centres on the fact that organizations are likely to respond to external pressures or threats in ways that protect corporate interests and image. Therefore, CSR in this context is used as a means of reducing the negative effects of major incidents through the use of the annual report and other disclosure media.

2.1. The Context of CSR

Within Australia and the rest of the world, reporting about social and environmental issues in a company’s annual report remains predominantly voluntary. As corporate impacts to the external environment become more prominent, the volume of voluntary disclosure related to that subject grows. The level of disclosure then declines again as companies perceive that the issue is attracting less widespread interest. Thus, this reactive and legitimating use of CSR is a seemingly inevitable consequence of voluntary reporting.

Today, businesses operate in a climate of intense public scrutiny from various stakeholder groups such as lobby groups, labour unions and governments. Consequently, managers have recognized the perception of congruency between organizational actions and the values of relevant publics as central to organizational survival. The continuing existence of organizations depends on obtaining and maintaining not only social approval (organizational legitimacy), but also system-wide legitimacy.
This study involves a detailed case study of CSR practice over a seventeen-year period. In order to examine CSR practice in a social, political and economic context, this study adopts two complementary theoretical perspective’s to investigate why these disclosures were made—legitimacy theory (with a focus on micro/organizational legitimacy) and political economy theory (with a focus on macro/system-wide legitimacy). Legitimacy theory attempts to provide insights into CSR practice at the micro level in which a company may legitimise organizational activities by increasing the quantitative and varying the qualitative characteristics of corporate social disclosures.

On the other hand, political economy theory is used in conjunction with the micro-level legitimacy theory by attempting to describe the context in which organizations might need to engage in CSR to legitimise their activities. It is contended here that an essential problem in the literature arises from treating legitimacy theory and political economy theory as competing rather than complementary theories of CSR behaviour. The essential point made in this study is that the economic and financial domains cannot be studied in isolation from the political, social and institutional framework within which the economic and financial takes place.

2.2. Annual Reports as the Primary Source of Disclosure Media

Any reasonably sized company can employ various strategic disclosure media through which it discloses CSR information. In addition to annual reports, company and public relations brochures, employee newsletters, advertising and special reports are all-important sources of “strategic” information about companies. Each media source can be perceived to strategically target a specific or wider audience. But probably the most important channel is the company’s annual report. This study, however, compares, contrasts and assesses CSR disclosures made through separate environment reports, greenhouse emission reports, other reports specific to the operation of Ok Tedi, together with the annual reports by BHP.

2.3. The Ok Tedi Case

The approach this study brings to the research of CSR utilizes an in-depth case study and historical review of BHP Ltd regarding its operations at Ok Tedi. In particular the events affecting the environment, which have occurred since 1984 as a consequence of BHP’s operation in Ok Tedi, provide an impetus for investigating possible increases, together with the reasons for this increase in the levels of CSR disclosure and changes in the nature of that disclosure. Thus, the Ok Tedi case study provides a more comprehensive description of the role of accounting in an organizational and social, economic and political context. Furthermore, this study places BHP in the context within which corporate social reporting is used.

3. CSR THEORIES

3.1. Legitimacy Theory as an Explanatory Theory of CSR Disclosure Micro/Firm-Specific Legitimacy

Organizations and their accounting systems ultimately operate in a social, economic and political context. Their continued existence, hence, depends on obtaining and maintaining social approval by ensuring that they operate within the bounds and norms of their respective societies. These bounds and
norms change across time, thereby requiring the organization to be responsive. Thus, organizations may face many threats to their legitimacy.

CSR can be seen as an important tool in corporate legitimation strategies, as it may be used in a number of ways to convince key stakeholders that the organization is fulfilling their expectation. These range from embracing a notion of accountability through to manipulation of public views. For example, the general tendency for CSR to be self-laudatory, may be explained as commensurate with a legitimation action on the part of the organization whereby the organization seeks to change the perceptions of the relevant publics without changing its actual behaviour.

3.2. Political Economy Theory as an Explanatory Theory of CSR Disclosure Micro/Firm-Specific Legitimacy

This approach seeks to understand and evaluate the functions of accounting within the context of economic, social and political environment in which the organization always operates, namely the macro context or system-wide legitimacy.

There are, however, two variants of political economy theory. Political economy can be viewed as “bourgeois” or as “classical”. Adopting a bourgeois approach that assumes structural harmony within society would not be a realistic assumption when an in-depth study is concerned. This requires the introduction of wider, systematic factors into the interpretation and explanation of the CSR phenomenon. For the purposes of this study, in adopting a complementary perspective of legitimacy and political economy, it is necessary to consider a classical political economy as placing structural conflict, inequality and the role of the State in a more prominent position. Therefore, by adopting a classical political economy perspective, this study admits into the analysis an examination of how the organization’s CSR practices interact with pressures of the social, political and economic systems that surround them (and the system as a whole).

4. RESEARCH METHOD

The use of content analysis facilitates the examination of legitimacy theory for CSR practice as the method describes what has happened in terms of the quantity and quality of CSR disclosures over the period. In addition, an association between the quantity of CSR disclosures during major environmental and social events might be indicative of supporting legitimacy theory.

Table 1 illustrates the content analysis categories used in the study.
### Table 1: Content analysis categories used in this study

<table>
<thead>
<tr>
<th>Quantity of CSR disclosures</th>
<th>Categories</th>
<th>Variable Captured</th>
<th>Purpose for Identifying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Themes</td>
<td>i.</td>
<td>Environment</td>
<td>Reporting to relevant publics ex ante</td>
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<td></td>
<td>ii.</td>
<td>Energy</td>
<td></td>
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<td></td>
<td>iii.</td>
<td>Human Resources</td>
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<td></td>
<td>iv.</td>
<td>Community Involvement</td>
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<td></td>
<td>v.</td>
<td>Others</td>
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<tbody>
<tr>
<td>Quantification</td>
<td>•</td>
<td>Quantified</td>
<td>Mode of substantiation</td>
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<tr>
<td></td>
<td>•</td>
<td>Not quantified</td>
<td></td>
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<tr>
<td>Timing</td>
<td>•</td>
<td>Past</td>
<td>Proactive or reactive disclosure strategy</td>
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<td></td>
<td>•</td>
<td>Present</td>
<td></td>
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<td></td>
<td>•</td>
<td>Future</td>
<td></td>
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<tr>
<td>Type of news</td>
<td>•</td>
<td>Good news</td>
<td>Self-laudatory nature of the BHP corporate image</td>
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<tr>
<td></td>
<td>•</td>
<td>Bad news</td>
<td></td>
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<td></td>
<td>•</td>
<td>Neutral news</td>
<td></td>
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<td>Source of disclosure media</td>
<td>•</td>
<td>Annual reports</td>
<td>Strategic choice of disclosure media</td>
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<td></td>
<td>•</td>
<td>Environment &amp; community reports</td>
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<td>Greenhouse reports</td>
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<td></td>
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<td>Other reports</td>
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On the other hand, adopting a classical political economy theory to understand CSR practice requires the analysis of the social, political and economic context in which CSR practice occurs. In order to analyze this overall context, historiography is used as it permits the contextualisation of the observable CSR practices derived from the content analysis. Furthermore, the context in which CSR practice is carried out can be compared with the quality of CSR disclosures such as news type, for example, reporting good news when negative organizational activities impact the environment. Thus, these methods seek to provide insights to CSR practice in a complementary way and seek to explain legitimacy and political economy theories.

Relevant information was obtained from public, archival sources in the form of newspapers and magazines, journals, mining and environmental publications. This was carried out by obtaining Ok Tedi-related BHP media press releases over the period of analysis. In addition, the Australian media articles were checked through the Australian Business Index (ABIX) database and those mentioning BHP and Ok Tedi for the same period were also obtained.

### 5. HISTORICAL CONTEXT

5.1. Background — The Tailings Dam Controversy

Since the inception of the project, the disposal of tailings has been a contentious issue between BHP, together with OTML, and the PNG government, in which BHP has consistently argued against a dam to contain the tailings.
A Series of Disasters: 1984-1993
Mining was permitted to commence in 1984 without a tailings dam having been constructed. Consequently, the tailings were, from the outset of mining, discharged directly into the Ok Tedi and Fly River system. In addition, the environmental impact in the river was compounded by the series of incidents involving cyanide that caused massive damage to aquatic flora and fauna.

The 1994-1995 Litigation Crisis
In 1994, the law firm of Slater and Gordon filed writs in the Supreme Court of Victoria against BHP and OTML, on behalf of PNG villagers. The largest compensatory suit in Australian history claim that damages could amount to A$4 billion. The case became well known in the media and BHP had to begin to explain their part in the case. Thus, the circumstance of this lawsuit was one of the “Australian giant” versus the traditional landowners.

The litigation was settled in an out-of-court settlement in 1996. Under the agreement, BHP would stop dumping tailings from the mine into the Ok Tedi and Fly River system.

A New Round of Crisis, 1999-2000
The Mine Waste Management Project Risk Assessment was released by OTML in August 1999. This report has confirmed that the mine will remain an environmental disaster no matter what action is taken. In March 2000, a World Bank report recommended that Ok Tedi be shut down to prevent further environmental damage downstream of the mine. The World Bank has expressed concern that neither the PNG government nor BHP has acted quickly enough to tackle the Ok Tedi issue. In April 2000, PNG landowners launched new legal action against BHP seeking unspecified damages for harm flowing from the Ok Tedi mining operations.

Under these circumstances, organizational legitimacy and system-wide legitimacy can be perceived to be threatened and CSR may be an avenue to re-establish legitimacy. It is against this background that BHP engaged in CSR disclosures.
Figures 1 reflect total CSR disclosures over time. It shows the general increase in the total CSR disclosures; however, the periods from 1994 to 1999 show significantly higher increases. In addition, the quantity of disclosures of during the above period is striking in Figure 6.1, and suggests strongly the presence of some factors that may have resulted BHP in disclosing more CSR information.

Figure 2 shows total CSR disclosures regarding Ok Tedi over time. No prior reference of the Ok Tedi issue is mentioned before 1994. However, post-1993 indicates a period of significant increases in Ok Tedi related disclosures especially during the years 1994 and 1999. These disclosures might be resultant from significant events during mining operations in Ok Tedi.
6. ANALYSIS OF FINDINGS AND MAJOR IMPLICATIONS

The analysis of BHP’s CSR practice indicates that there exists a power differential between BHP, the PNG government and the PNG landowners. This is evident in no reference being made regarding the Ok Tedi case prior to the lawsuit. The year of the lawsuit provided BHP with desire and reflects a change in BHP’s quantity and quality of CSR disclosure. The main finding is that BHP’s reporting strategy is consistent with legitimacy and political economy theories. Furthermore, the company’s legitimation strategies are consistent with Lindblom’s (1994) approach in seeking to legitimise or attempt to be accountable for their activities.

7. SUMMARY AND CONCLUSIONS

In the BHP and Ok Tedi case, the means (where) of disclosing CSR information has shifted from the traditional reporting medium (the annual report) towards other more strategic disclosure media (separate reports). There, however, might be several plausible reasons for this shift. Firstly, annual reports might have a limited audience particularly when environmental and social issues are discussed.

Secondly, these strategic disclosure media could be used, arguably, as a tool for targeting the relevant publics.

Thirdly, there is a greater scope in which environmental and social issues could be discussed through separate environment reports or, in this case, Ok Tedi-related
reports. Furthermore, this shift might also be due BHP’s desire to recognise social responsibility, or alternatively to ‘mystify’ societal opinion as indicated by some of the company’s strategic disclosure media.

The question arises of how BHP’s strategic choice of disclosure media can affect stakeholder perception of organizational behaviour. This has to be considered in light of the quantitative and qualitative characteristics of CSR disclosures that are important in assessing the overall value of BHP’s CSR practice. Increased quantity of CSR disclosure can be recognition of wider accountabilities or responses to perceived threats to organizational legitimacy (then this would not be voluntary CSR).

The qualitative characteristics of BHP’s CSR disclosures provide an additional dimension to the nature of what is actually disclosed. The dominant characteristics of qualitative CSR disclosures indicate a primary focus on:

- Not quantified disclosures. This trend in BHP’s reporting strategy does not seem surprising, as there are immense difficulties in quantifying such costs and benefits, for example, what amount can be placed on the environmental and social damage BHP has caused the PNG landowners and the environment.
- Present issues that concern the company, or the external environment. BHP’s reporting strategy appears to be a logical move in that companies are more reactive towards societal or organizational needs or developments.
- Good news. BHP’s reporting strategy is consistent with prior studies in that companies are self-laudatory. The fact that companies might be self-laudatory does not provide much insight to why only good news is disclosed.

The important point to note is that the quantity and quality of CSR disclosures are complementary. However, they should also be analysed with regards to why BHP discloses such information in the first place.

The analysis of both quantity and quality of CSR disclosure illustrates the legitimation approaches that BHP might adopt when legitimacy is threatened. Four broad legitimation strategies to maintaining organizational and/or system-wide legitimacy are possible. Some of these legitimation strategies were examined and have been found that BHP mostly seeks to maintain organizational legitimacy by managing societal opinions (manipulation or deflecting negative events) by disclosing more good news. In some cases, BHP was actually trying to inform its relevant publics about intentions of the company to enhance its social performance when there was good news to report.

In attempting to synthesize an explanation of CSR changes in the 17-year overview of BHP’s mining operations in Ok Tedi, there are two key observations to be made. Firstly, the overall upward trend over the period from 1994 to 1999 is consistent with a legitimacy understanding of CSR as the items addressed in the disclosures are of concern to the relevant publics. During this period, the company expanded its definition of stakeholders to include environmental groups, the PNG landowners, the PNG government and the public due to the focus on environment and community disclosures. In addition, over time, the increased discussion and revelation of BHP’s attempts to disregard the environment, the PNG landowners and government became a significant part of the disclosure and was produced on a timelier basis.
Secondly, from a political economy point of view, the study of BHP and Ok Tedi illustrates the interplay between corporate activity, public opinion, welfare of traditional landowners, and government intervention. The PNG government’s economic dependence on the Ok Tedi project resulted in the lack of regulation in a relationship whereby BHP had more power to exploit CSR. Therefore, BHP used CSR disclosures in order to influence social norms or perceptions and to influence the distribution of wealth and power.

In conclusion, it would be inadequate to assume structural harmony and analyse CSR phenomena in isolation from the overall context within which it ultimately exists. The social, economic, political and historical environment of Ok Tedi provides a more contextualized picture of BHP’s CSR practice. It appears to be necessary to focus on this overall context in order to provide a more comprehensive picture of CSR practice. Therefore, the study has a stronger conclusion for BHP’s CSR reporting strategy in relation to the BHP and Ok Tedi case.

REFERENCES


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