UNIVERSITY OF AGDER

BUSINESS AS USUAL?

THE NEW ROLE OF MULTINATIONAL CORPORATIONS IN HOST COUNTRIES WITH INADEQUATE INSTITUTIONS.
CASE STUDY OF BP IN AZERBAIJAN

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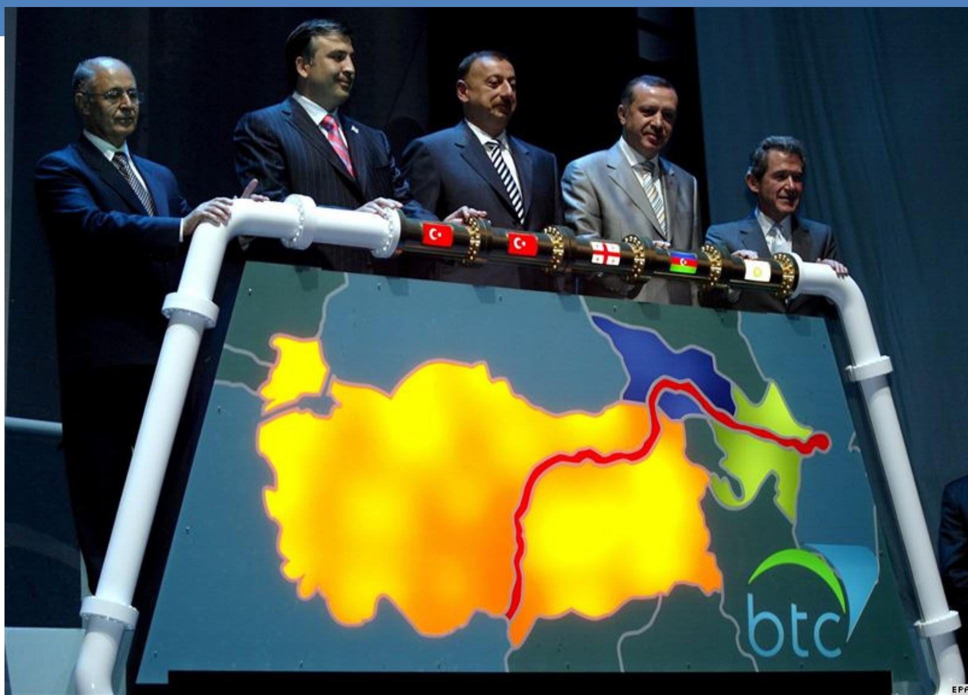

Photos:

- BP's logo (Guardian, 2009)
- Official inauguration of the BTC pipeline, Ceyhan – July 2006 . (l to r) Ahmet Nacdet Sezer, President of Turkey; Mikheil Saakashvili, President of Georgia; Ilham Aliyev, President of Azerbaijan; Recep Tayyip Erdogan, Prime Minister of Turkey; Lord John Browne, CEO of BP (RFE/RL, 2010)

Abstract

The present thesis is a contribution to increase knowledge about public-private partnerships in the field of international business, and specifically about partnerships that are stirring into governance issues of the host country. The main theme of the thesis is how a multinational corporation (MNC) and a host government can implement a successful collaboration that aims to promote capacity building in the host country. The case of study is BP in Azerbaijan. It investigates the background and the circumstances that led to the partnership between BP and its host government in Azerbaijan. The thesis resulted into four main findings: (1) the societal background and the morality and virtue of a multinational determine its decision to engage into private-public partnership for capacity building; however the authors did not find enough evidence to affirm that it also stands from the host government's point view. (2) The MNC and the host government are more willing to engage in partnership if the expected value-added and contributions of the cooperation exceed the disadvantages created by the current governance failure. (3) Protection of its investment seems to be a stronger driver for the company to enter a public-private partnership aiming at capacity building rather than the wish for stability in the host country. And (4) high bargaining power coupled with a persuasive influence act more as stronger driver in engagement to partnership than the support from the industry.

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Liva Maric & Kurt Pedersen

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EXECUTIVE SUMMARY

The present thesis is a contribution to increase knowledge about public-private partnerships in the field of international business, and specifically about partnerships that are stirring into governance issues of the host country. The main theme of the thesis is how a multinational corporation (MNC) and a host government can implement a successful public-private collaboration that aims to promote capacity building. The case of study is BP in Azerbaijan. It investigates the partnership between BP and its host government in Azerbaijan. This thesis does not try to invent any new theory but rather tries to shed light on the collaboration in order to bring deeper understanding on the background and the circumstances that lead to such cooperation. The investigation is based on theory of relationship between multinational corporations and host governments, about public-private partnership, about social responsibility and about inter-industry collaboration.

Throughout the thesis the authors have attempted to concentrate on the following propositions:

1. The societal background and the morality and virtue of a multinational determine its decision to engage into a PPP for capacity building
2. The higher the expected value-added and the contribution of the partnership compared to the disadvantages caused by the governance failure; the stronger the chance to bring host government and multinational into a partnership.
3. The stability and capability of the host government is determinant for the involvement of a MNC in a PPP aiming to capacity building.
4. The stronger the support from other companies in the industry, the higher the chance that the implementation of a PPP for capacity building would succeed.

The result of the research shows that high morality and virtue as well as the societal background of the multinationals have strong influences in the decision to enter into a partnership with the host country government in capacity building initiatives. It also shows that what each party expects as contributions of the partnership should exceed the perceived disagreements cause by the governance failure in order to trigger a commitment from them to engage in PPP. Furthermore our findings underlines that concerns about the safety and security of the MNC’s investments, rather than pressure to step in where the local institutions fail, are stronger driver for multinationals to engage in capacity building partnership with host

government. And last but not least the authors found that high bargaining power paired with strong influence is a more determinant driver for involvement in PPP than collaboration within the industry.

Next, in the discussion part, we argue that a strong commitment starting from the leaders and managers is necessary in order to achieve successful partnership between MNCs and host governments. We also suggest shifting the focus from the negative effects of inadequate institutions, and rather promoting the benefits of the democratic ones may help to motivate all the stakeholders to collaborate in capacity building. Furthermore, we also incite the multinationals to consider alternative means to address governance issue in their host countries even if they are not powerful and influential in the country. And last, we call for a collective movement on a macro-institutional level from major companies in one industry in order to impose required standards about the institutions to all countries that expect to attract foreign investors.

Finally, the thesis ends with some recommendations for further researches. It concerns namely studies on partnership aiming at capacity building from another perspective than the MNC-host country government, such as the tripartite types of partnership which involves the multinational, the host government and the local NGOs. We also incite to studies measuring the impact and success of such collaboration as well as those investigation into the revenue spending of the host government.

- INTRODUCTION
- THEORIES
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- CONCLUDING REMARKS

I- INTRODUCTION

1.1. The study

The present work is a study of the case of BP in Azerbaijan. More precisely, it investigates the partnership between BP and its host government in Azerbaijan: the two entities, in fact, are boarded in a close collaboration to promote oil revenue transparency in the country. This study sheds light on this collaboration and aims to bring deeper understanding on the background and the circumstances that led to such cooperation.

The purpose of this study is to discuss broadly the topic: **multinational corporations as change-agents which contribute to address governance failures in a country with inadequate institutions.** More concretely, the present work is a contribution to increase knowledge about public-private partnerships in the field of international business, and specifically about partnerships that are stirring into governance issues of the host country. The research question we are attempting to answer in this work is: **What are the prerequisites to implement a successful public-private collaboration that aims to promote capacity building?** The host country's revenue transparency will be the governance issue in focus in this study. Transparency is indeed an important issue in order to ensure a fair and sustainable socio-economic development for all citizens of a country.

Most of the literatures treating the topic of public-private partnerships are concentrated on developed countries (Kolk, van Tulder, & Kostwinder, 2008); in attempt to fill this gap, the setting of this study will then rather be a developing country endowed with natural resources and where the local institutions are mostly inadequate.

1.2. The rationale

Why, indeed, is a study on public-private collaboration for capacity building necessary? The investigators are, first, very concerned about the poverty and inequality in the world. Further, they are aware of the potential the international business has to contribute to address such challenges. By conducting the present study, the investigators expect to raise broader awareness about the new role of international business. We would like to promote the idea that multinational corporations can and should be more socially responsible and concur to sustainable development of their host countries as they are making profits.

The main motivation in conducting this study comes from the awareness of the negative consequences of inadequate institutions on the local population, and especially in countries endowed with natural resources. In fact, most of the major problems we are facing in the world result from the failure of the local institutions to ensure flourishing to their citizens. Human rights violation, oppression, corruption, resource and borrowing privileges are some characteristics of inadequate institutions which mostly affect the most vulnerable group: the local population. These mostly result into poverty and socio-economic inequality (Pogge, 2001), into civil wars and unrests, into people forced to flee out of their countries and becoming refugees from their own home. The phenomenon is worse in developing countries rich in natural wealth (Eigen, 2007).

Secondly, multinationals, as global actors, are assumed to be socially responsible. Social Responsibility (SR) refers to an organization's duty to answer for "*the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development; takes account of the expectations of stakeholders; is in compliance with international norms of behavior and that is integrated throughout the organization and praticized in its relationships*" (ISO, 2009). International value chains, global environmental and health concerns, global trade, financial and economic interconnections, as well as global acceptance of the need to eradicate poverty and inequality emphasize that organizations, and moreover multinational corporations, cannot operate in isolation; they are rather connected in a worldwide interdependence. The impacts of organizations' actions on the communities and the environment have increased the last decades amplified by globalization; and they mainly affect the most vulnerable groups. As an actor in such a global society, an organization is called to face its responsibilities for the impacts of its activities on its stakeholders (ISO, 2009).

Furthermore, another incentive in conducting this study is the authors' adherence to the idea of Creating Shared Value (CSV). This concept argues indeed that there is a need of transformation in the business thinking. Business has been for long accused of been a major cause of the social, the environmental and the economic problems in different communities. It is mainly because the "traditional" managers have been primarily concerned about the financial performances only and rather ignored the costs and other externalities the activities of their companies burden the local community. Creating Shared Value then incites to value creation that, in its turn, enhances the benefits to the society by addressing its needs and challenges (Porter & Kramer, 2011).

Next, this study intends to focus on the extractive industry, more specifically on the oil and gas sector. This choice is motivated by the fact that the oil industry represents an excellent illustration of the case of a sector with the potential to generate high revenue and where the actors, namely the oil companies, are mostly operating in countries where the institutions are not always adequate. Moreover, the impacts of the operations of oil multinationals, be it the negative or the positive ones, are mostly occurring on the mezzo-institutional level, in the meaning of the whole country level; as opposed to the immediate vicinity of the oil operations. These impacts represent governance issues. That is why oil multinationals are particularly expected to show their responsibilities by engaging with the local governments in institutional capacity building. Indeed, in his 7 principles about ethical behaviors for multinationals, De George recommends that they should contribute and help the local government to develop and enforce just background institutions (De George, 1993).

Thus, in this study, we will analyze the case of BP, and how it has managed to become an important partner of the local government in establishing a more transparent management of the oil revenue in Azerbaijan, while in 2001, it was threatened of contract termination in Angola and was almost repelled out of the country by disclosing its payments to the Angolan government. The collaboration between BP and the Azerbaijani government in term of oil revenue management is in fact considered as a benchmark for successful partnership in the industry by the time this study is conducted.

Out of our analysis, we expect to shed light on the conditions and requirements that favor good collaborations between oil multinationals and host governments in the implementation of initiatives aiming to address revenue transparency challenges. We would like to find out whether a multinational can go beyond SR commitments and become a change-agent in an inadequate institution country, and what factors may help them to achieve this goal. We expect to come out with some relevant recommendations that can be useful for other oil multinationals and/or governments behind oil multinationals.

1.3. The structure of the study

This work is meant to be a descriptive case study combined with archival analysis. The background of the partnership between BP and the Azerbaijan government is the unit of analysis. The investigators base their research mainly on theories about relationship between multinational corporations and host governments, about public-private partnership, about social responsibility and about inter-industry collaboration. In addition, theories such as the resource privilege, inadequate institutions, Social Responsibility and Creating Shared Value, as well as the particularity of the oil industry are also presented in order to provide a good description of the phenomenon under study.

The focus of the case will be on BP's actions in Azerbaijan, the researchers investigate how the contexts helped or limited BP's engagement with the Azerbaijani government in the pursuit of oil revenue transparency. The investigators take a closer look into the nature of the relationship between BP and the Azerbaijani government and the details of BP's involvement and initiatives. They use company reports, policy documents, contractual agreements, published interviews and speeches, and other types of official publications and crossing the facts with historical reviews, press articles, academic articles to name but a few.

The study is structured as follows: (1) the part II includes a presentation of the theories upon which the study has been based. By the end of this part, we will come up with some propositions that may explain the success of the commitment of BP to engage in close collaboration with the Azeri government in order to promote revenue transparency. These propositions are developed from the theories we have presented. (2) The third part of the work introduces the methodology we have been using in conducting the study. (3) In part IV, we display our findings; besides, we come up with discussions and recommendations. We take up our propositions and compare them with our findings in order to assert whether they are supported or not. (4) We close the present study with some concluding remarks and suggestions for further researches.

II- THEORIES

2.1. Context overview

2.1.1. Inadequate institutions

One of the main premises of this study is the fact that globalization and the increasing need for more resources have lately widened the horizon of international business to countries where the local institutions are not always adequate. This is mostly true for the case of business operating in the so-called "point resources" like the oil and gas sector (Kolstad, Wiig, & Williams, 2009).

North (North, 1990) defines institutions as the norms, values, regulations and laws that constitute the framework of the acceptable behavior inside a community. There are three levels of institutions, (1) the macro-institutions which deal with the exchanges occurring at the international level; (2) the mezzo-institutions which refer to the norms and regulations within one country's border; and (3) the micro-institutional level which is about the interactions within a local community (Falkenberg, 2007). Institutions are qualified as inadequate when they are not promoting flourishing to all sentient creation. It means that they are not just nor fair, thus not promoting the principle of the Good (Falkenberg, 1996); further they are inadequate if they are not promoting the basic human rights; and third, from the utilitarian point of view, they are inadequate if they are promoting acts that provide pain rather than pleasure to at least one of the stakeholders (Falkenberg, 2004; Rawls, 1999).

Inadequate institutions may be characterized by the lack for responsible government, the lack for effective state administration and tax authorities, the lack for independent judicial system, the lack for active and well-informed civil society, and the lack for open political decisions process which is the basis of transparency (Gary, 2005 in (Jorde, 2006)). It also concerns countries where the legal and regulatory framework may be incomplete and fail to adequately protect the people and the environment from harmful practices; where the social conditions can be so bad that one can ill afford to cover basic needs in the areas of education, health care and nutrition for the children; where concerns for basic survival may override concerns for the environment, safe products, pollution and the like; where corrupt officials and judges may disrupt the proper functioning of markets, competition, property rights and due process of law. It also concerns poor countries that may have to agree to unreasonable terms when seeking to attract much needed foreign skills, technology and investment (Falkenberg, 2004).

Inadequate institutions in resource rich countries are mostly characterized by a rentier autonomous and less accountable state, as the local governments get their revenues from the exploitation of the natural resources instead of from tax collection. Corruption, in the form of rent-seeking and patronage, is also typical of inadequate institutions in resource rich countries. While rent-seeking diverts skilled human resources from production to pursuit of rent causing social costs; patronage, in its turn, allows misallocation of public resource to secure the political power causing destruction of institutions and consolidation of dictatorial regimes. In addition, there is an increased social inequality in such countries as referring to economic growth and to distribution of income as a result of the phenomenon of the Dutch disease and the resource curse (Kolstad, et al., 2009; Wantchekon, 2002).

2.1.2. The negative effects of inadequate institutions

On a mezzo-institutional level, dysfunctional and unstable governments, corrupt social institutions and oppressive elites are among the most pinpointed causes for the prevalence of poverty and inequality (Eigen, 2007; Pogge, 2001). The first refers to *"a severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information"*. It also encompasses a denial of basic opportunities and choices that permit human development (UN Statement, 1998 cited in (Gordon, 2005)). The second refers to the unfair distribution of the wealth in the world. It is because governments and political institutions in countries with inadequate institutions do not respond correctly to the needs of these countries' populations (Pogge, 2001).

Further, violation of the basic human rights; such as extra judicial execution, disappearances, tortures, corporal punishment, detention, restriction of the freedom of speech, detention of prisoners of conscience and special court, is currently used by coercive governments, authoritarian states and military regimes. They mostly do violent repressions in order to stop any form of protest from the population and to stay in power (McNitt, 1995).

Next, one form of inadequate institutions is also kleptocratic regimes which is stealing from one's own people. It is called resource and borrowing privileges. The second term refers to "*a group that exercises effective power within a national territory and which is entitled to borrow funds in the name of the whole country*" as well as to the effective control over the natural resource of a country by the group in power. The borrowing privilege leaves the country with international debts which are hard to honor for any succeeding regime. The money was not even used to ensure the needs of the local population but rather to the personal use of the borrowing government (which is mainly an authoritarian one). The resource privilege, in its turn, deprives the population of its own property as the kleptocratic regime illegitimately sells the country's wealth for its own benefit. The exchange relationship does not provide flourishing for whole sentient creation. The buyer gets the demanded resources; the kleptocratic government uses the funds to support their power, while the population of the country suffers. The main issue with borrowing and resource privilege is that the buyer is granting the kleptocratic regimes the property right by accepting to buy from them or by lending them money. So, as long as there are corporations/governments purchasing resources from countries with inadequate institutions and entitling a kleptocratic government as the legitimate owner of the resources, there will be poverty in developing countries (Falkenberg, 2004; Pogge, 2001).

From the international business point of view, inadequate host country institutions create many disadvantages for multinational corporations in terms of business environment. For the first, in countries with kleptocratic and corrupt regimes, the main business risks are mostly related to regulations and political instability and to corruption and governance. Multinationals doing business in such countries are indeed exposed to risks of unfair expropriations, of costly changes and disagreements due to ambiguous interpretations of the investment regulations and the practice of double-standards (Zhao, Kim, & Jianjun, 2003). Secondly, doing business with oppressive and right-violating regimes is morally and ethically questionable. Multinationals mainly expose themselves to sanctions and other pressures by engaging operations with such countries. In short, inadequate institutions thus lead to higher uncertainty and added costs for the multinational's business (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003).

One of the main risks for oil multinationals in a country where the institutions are corrupt is also the lack of recourse organ. Often in countries where corruption prevails, the judges supposed to enforce the law are themselves corrupt; it leads to an unpredictable and unfair court system. Consequently, companies, especially the foreign ones, can simply not rely on a fair judicial system in case of disputes or to enforce contracts (Nugent & Sukiassyan, 2009). In addition, multinationals operating with high capital and know-how investments are more likely to become a hostage of the host corrupt government due to high cost of withdrawal. Sometimes they may be forced to bribe in order to get things done or avoid extortion or even getting involved into organized crimes (Doh, et al., 2003). Moreover, a decision not to bribe may be as costly since the company then has to face red-tape and heavy bureaucracy. Companies may be out-competed by less moral competitors in the worst case. Governance failure such as ineffective use of public resources and low economic growth represents also additional indirect cost for companies operating in corrupt countries, (Doh, et al., 2003; O'Higgins, 2006).

Closely related to corruption, another factor that affects the operations of multinationals in countries with inadequate institutions is the lack of or low transparency. Compared to an open regulatory regime, where there is fair competitions and where the managers of the multinationals can make rational and well-informed decisions; when operating in countries with non-transparent institutions, the multinationals are more exposed to unforeseeable risks such as expropriation and discriminatory policies and regulations (Zhao, et al., 2003). For the specific case of resource rich countries, another aspect of the transparency issue is the disclosure in the management of the revenue from the natural resource. So far, most of the international initiatives implemented to promote transparency, such as the Extractive Industry Transparency Initiative (EITI), are mainly focusing on disclosing revenues and not on the government's spending of these revenues (Frynas, 2009). The problem is that the lack of transparency on revenue spending allows the local authorities to divert these revenues to other purposes than to the benefit of the population, and it is mostly to reinforce their own power.

Trading and doing business with authoritarian regimes are morally condemnable and are very problematic for any multinational. However, a multinational may be tempted to still operate in those countries to reduce costs because these regimes offer "questionable" advantages to attract foreign investments: low labor costs, indulgent pollution controls and overflowing tax incentives (LeRougetel, 1998), and because of the nature of the business like in oil and gas where the product involves asset specificity only available in those particular area. Oppressive regimes are more or less isolated by the international community and are mostly under trade ban and different sanctions. The business environment in countries with an oppressive regime is therefore characterized by an extreme exposure to sanctions and pressures from different activists, and from the home and the international community. Multinationals, supposedly from democratic countries, still doing business in such countries usually have to face protests and boycotts from activists and consumers trying to force them to withdraw from these countries, they may also have to face revolts from their shareholders and /or law suits in their home countries (Holliday, 2005).

2.1.3. The case of oil industry

The petroleum industry is considered as the backbone of the world's economy. It is because oil and gas remain the principal source of energy as we speak. The oil and gas sector is also one of the largest economic sectors with respect to capacity, investment, production and consumption. Besides the financial means, oil and gas operations also require advanced knowledge, highly sophisticated technology, large and complex infrastructure and distribution network as well as well-developed marketing skills. The complexity of the industry has led oil companies to organize in vertically integrated structures, whenever possible, which not only include the wells, but also the refining plants, transportation pipelines and ship tanks, and distribution networks in the consumer markets (Teece, 1976).

Most of the world's oil reserves are located in corrupt and considered as repressive "not free" countries (Freedom.House, 2010; Nation.Master, 2010; Transparency.International, 2010). However, as an extractive industry, it is characterized by asset specificity, namely the location of the natural resources. Unfortunately, indeed, they cannot move the oilfield to a safer place so their operations in that matter are very inflexible and the sunk cost is high. This coupled with the drastic increase in both the price and the consumption of oil led to a need for a steady new supply and made it actual to contract with countries with inadequate institutions, and even with oppressive, corrupt and kleptocratic regimes (Jorde, 2006).

The positive spillovers, such as technology and knowledge transfer, increase in the government revenue through taxes, employment etc…, aside; the oil industry is mostly accused of contributing to resource curse to the host countries. It refers to the fact that instead of creating prosperity for the country, the sudden rise of income as a result of the oil exploitation rather leads to lower economic growth, lower levels of human development, and to more inequality and poverty (Kolstad, et al., 2009).

Moreover, due to their activities in countries with inadequate institutions, or in so-called "unstable areas", oil corporations are most of the time accused of having behaviors that promote conflicts, rent-seeking, state hollowing and human misery rather than sustainable development. Ballentine cited five questionable practices multinationals operating in countries with weak institutions are mainly accused of: (1) engaging with unaccountable regime which intensifies corruption, rent-seeking and off-the-book state allocations that leads to increased social inequality and nurture rebellion; (2) insisting to cooperate with regimes that violate fundamental human rights or involved in war crimes like ethnic cleansing; (3) protecting their investments, plants and personal by using suspicious practices; (4) purposefully supporting and financing rebellions in the hope for better contracts if they come into power; and (5) in some instances, supplying illicit weapons to one or another part in a conflict (Ballentine, 2004).

2.1.4. Social responsibility (SR)

The social responsibility of organizations implies that multinationals are accountable of its impacts on the society and on the environment and are expected to contribute to sustainable development disregarding the institutional situations prevailing in the country they are operating into (ISO, 2009). Development was, in the beginning, considered as the business of the states only. Later however, mostly because of inadequate institutions, the states began to be viewed as the cause of the problem rather than the solution (Evans cited in (Reed & Reed, 2006)). On the other side, business started getting more attention as a potential major actor in addressing the state failure. Multinationals are gradually called to act as a partner in capacity-building and are therefore politically involved in the host country (Wettstein, 2005).

By their nature, multinationals are global actors; hence, they cannot totally act on their own; they are dependent on interactions and good cooperation with their political, social and environmental entourages worldwide (Warhurst, 2005). Moreover, given the volume of investments involved in their operations, multinationals have greater interests in operating in safe and trustworthy business environments (Gulbrandsen & Moe, 2007). Failing to take into consideration the political and social issues of the environment they are evolving into may have negative implications on their own business. This is even more relevant when the corporations are operating in countries where the ideal settings such as democratic regime, financial stability and good law and regulations enforcement system are missing. The pressure on the multinationals to go beyond their pursuit of financial profits only and to contribute to address social inequalities is higher (Warhurst, 2005).

It is however important to stress that the goal is not that the companies should replace the local government's role. It is still the local government's duties to protect the rights of its citizens, to avoid deprivation, and to bring help to the deprived. The multinationals are rather expected to respect the human rights and assist the local regimes as partners in establishing just institutions among other duties (De George, 2006; ISO, 2009).

There are two main ways for multinationals to express their social responsibility; the first consists of small-scale projects aiming to improve the relationships with the local stakeholders in the immediate vicinity of where they operate. They are also called micro-level CSR. The second level, the macro-level CSR is an initiative aiming to address or to contribute in the improvement of broader societal issues such as human rights, good governance and social development (Gulbrandsen & Moe, 2007). They are also named strategic CSR by Wiig and Kolstad (Wiig & Kolstad, 2009).

The micro-CSR refers to engagements which range from health or education projects to infrastructure building, provision of clean water, environment protection activities and more… These types of CSR activities are considered as uncontroversial and benign and thus mostly welcomed by both the local community and the host government. Multinationals nowadays are very keen on publishing involvement in such initiatives as they also represent a good way to ensure a nice reputation. The macro-CSR, in its turn, includes initiatives such as promoting transparency, social equality, freedom or political rights. These are more critical for oil multinationals given that the major negative impacts of oil operations occur on the macro level. At the same time, these are very sensitive issues for the local institutions, which are mostly inadequate, because it stirs into the foundation of their power (Gulbrandsen & Moe, 2007).

2.1.5. Creating Shared Value (CSV)

The concept of Creating Shared Value (CSV) goes even beyond the Social Responsibility. Basically, it aims to a more radically change of mind in the world of business rather than doing some CSR initiatives in order to gain better reputation. In fact, the authors, who launched the idea (Porter & Kramer, 2011), meant that, nowadays, the more business do CSR, the more it is blamed for society's failures. It is mostly because many consider CSR as a window-dressing designated to procure a good image of the company.

The perspective of CSV is that societal issues should no longer be peripheral activities of companies as in Social Responsibility but they should rather be the core of their business. The basic argument goes as the competitiveness of a company is intertwined with the health of the community around it. The approach of CSV requires a new way of thinking among company leaders and managers: to shift their focus from narrow financial performances to broader mutual benefits shared with society. In other words, it refers to a redefinition of the purpose of corporations. The definition of the term value is here essential; it refers to the benefits relative to costs (such as resource depletion, economic distress of the local community, or disadvantage of the consumers) rather than to benefits alone.

CSV is thus defined as *"policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates"* (Porter & Kramer, 2011). It stresses the difference between sharing the value already created, thus redistribution, and expanding the total pool of economic and social value. For illustration, the case of the fair trade: paying higher proportion of the revenues to the farmers is rather promoting more fair redistribution of the value already created. Instead, CSV would rather be improving growing techniques, strengthening the local cluster of supporting supplier in order to increase farmer's efficiency, yields, product quality and sustainability; and thereby create better results in term of bigger revenue; thus, both the farmers and the traders end up better off.

Companies are incited to take the lead in making this change of mind happens; however, governments and the civil societies are also expected to get advantages by starting to think more in value terms (focus on results achieved rather than on efforts and fund expended) and increase collaboration with business. CSV requires therefore new skills and knowledge from leaders and managers of organizations. They should gain deeper appreciation of the societal needs, greater understanding of true bases of company productivity, and ability to collaborate about profit/non-profit boundaries (Porter & Kramer, 2011).

2.2. Theories and observations about Public-Private Partnership for capacity building

The collaboration between the private and the public sector is not a new phenomenon; such cooperation dated back to the 18^{th} century in the form of a private investment in public infrastructure. However, the Public-Private Partnership (PPP), as an approach to conduct a project, started to be widely implemented only by the end of the 1990's (Tang, Shen, & Cheng, 2010). The idea of partnership has been launched mostly at the Earth Summit in Rio de Janeiro in 1992, while partnership involving the private sector together with governments and civil society and which aims to overcome poverty and sustainable development challenges was promoted at the World Summit for Sustainable Development in 2002 (Rio +10) (Global.Issues, 2002; OECD, 2006). Still, only few countries have adopted a concrete partnership with business as a central part of their official development policy and they are mostly developed countries such as Denmark, the Netherlands and Germany (Kolk, et al., 2008).

Defining Public-Private Partnership remains a challenging task. Each country has its definition of PPP projects depending on the form, the scope, the scale and the duration, as well as the situation in each country (Reijniers, 1994; Tang, et al., 2010). According to the US National Council for PPP, they are *"contractual agreements between the public sector (government) and the private sector (for-profit companies) under which the resources and risks of both are shared to meet a specific public need"* (NCPPP, 2006). In some contexts, the

PPP definition may be interpreted more broadly and includes even informal dialogues between government officials and local community-based organizations as with the PPPs for Urban Development in the UK (Tang, et al., 2010).

Warner and Sullivan divided partnerships engaging corporations in social investment into six categories, depending on the level of involvement of each party. They are namely: (1) *knowledge-sharing:* when the parties agree to share studies, proposals and evaluations; (2) *dialogue:* when the parties agree to consult each other during the preparation of plans, policies, standards, reporting requirements and so on; (3) *informed consent:* agreement that none of the parties will take any decision without a prior consent of all partners; (4) *contractual:* when one or more party is to provide a service under contract to another; (5) *shared work-plan:* agreement to work on complementary tasks towards a common goal and where accountability and responsibility remain with each party separately; and (6) *shared responsibility:* agreement to share the overall responsibility for implementing tasks and to be jointly accountable to stakeholders (Sullivan & Warner, 2004).

Alternatively, based on their strategic goals, the basic assumptions about the regulation of business and the understandings of development that actors have, Reed and Reed have found four types of PPPs. They are (1) Business PPPs which can hardly be defined as partnerships; this type refers to any contract in which the private sector is offering services which have been traditionally provided by the state. (2) Corporate social responsibility PPPs refer to mainly the company's voluntary engagement to conduct CSR initiatives. It mostly covers the areas of small and medium-sized business development and community development programs and campaigns in such areas as health and education. (3) Corporate accountability PPPs mostly move away from voluntary measurers to a framework that ensures answerability, enforceability and applicability/universality. It includes requirements such as the basic conditions under which business should be done, corporate governance, business strategy and political involvement. It is characterized by the use of national and international legislations, agreements… as form of pressure and enforcement. And (4) Alternative business and trade PPPs refer to partnerships aiming to promote the development of the social economy as well as certification programs, alternative commodity chains and so on… (Reed & Reed, 2006).

The literature describes partnerships in general as instruments to overcome failures, such as governance failure (government), market failure (companies) or "good intentions" failure (non-profit organizations). A Public-Private Partnership is, according to this consideration, a type of partnership that aims to *"address the inadequate (private and public) provision of public goods"*(Kolk, et al., 2008). It is mainly in the situation of failure, in the present case governance failure, where the concept of capacity building or capacity development intervenes. Capacity development refers to *"the process by which individuals, organizations, institutions and societies develop abilities to perform functions, solve problems and set and achieve objectives"* (UN.Ecosoc, 2006). Capacity building, specifically institutional capacity building is required when the institutions in a country fail to fulfill their roles. It means (1) to ensure a fair and regular selection, monitoring and replacement of those governing the country; (2) to ensure that the government is capable of managing its resources effectively and of implementing sound policies; (3) to ensure the respect of citizens and the state for the institutions that govern economic and social interactions among them (World.Bank, 2007).

As a research area, PPP is a relatively unexplored field. Most of the researches done about Inter-Organizational Relationships (IORs) so far mainly focused on relationship between Non-Profit Organizations (NPOs) and Governments or on Multipartite Partnerships which include NPOs, Private sector and Governments (Austin, 2000; Sullivan & Warner, 2004). Even fewer are studies on PPP for development and especially those aiming to contribute to capacity building. Studies conducted on the subject are mostly concentrated on the motivation to start the partnership, some others relate the scope and practical mechanisms in such partnerships (Austin, 2000; Kolk, et al., 2008; Pfeffer & Salancik, 1978; Webb & Carstens, 2008). There are some theoretical studies which have considered the effectiveness of partnerships for the provision of public goods. They are mostly conducted in developed countries settings and have mostly concluded on the difficulty to assess the impact of such partnership due to lack of generalized and clear criteria (Altenburg & Chahoud, 2003; Kolk & van Tulder, 2006; Kolk, et al., 2008). Besides, the researches which managed to study these impacts are rather inconclusive as to whether they were negative or positive (Reed & Reed, 2006). Thus, because the phenomenon is rather new and because relevant cases are still rather limited, theories and models concerning PPP aiming to capacity building are not well validated yet (Webb & Carstens, 2008).

From the business point of view, engagement in collaboration with governments, especially in developing countries, in order to undertake capacity building initiatives is referred as a "hard" investment in public sector capabilities or a corporate social responsibility on a "macro-level"

(Crowson, 2008; Gulbrandsen & Moe, 2007). It concerns mostly big international companies which have the extensive means, influences and networks to undertake such initiatives (Webb & Carstens, 2008).

The involvement of business into PPP for development results, firstly, from the critics concerning their operations in nations where the institutions are not adequate (Hertz, 2001; Klein, 2002; Stiglitz, 2002). Secondly, it also results from the recognition that a sustainable business requires a local legal framework and “good” institutions that function properly, given the size of the investments they are bringing into the host country (Gulbrandsen & Moe, 2007; Wiig & Kolstad, 2009). The acknowledgement of the need for business to become gradually involved into capacity building grows among company leaders (Frynas, 2009; Nelson & Prescott, 2003; Webb & Carstens, 2008). So far however, only a small, but increasing, number of companies have started to contribute to better governance through PPP initiatives aiming to capacity building such as the Extractive Industries Transparency Initiative (EITI), the Ethical Trading Initiative (ETI), and the Voluntary Principles on Security and Human Rights etc… (Webb & Carstens, 2008).

The main advantage from partnerships is bundled expertise. It means taking advantage of shared resources and capabilities in order to achieve outcomes that add more value than what an individual effort would have added (Sullivan & Warner, 2004). For businesses, involvement in such a partnership is a means to protect their investments from the negative effects of weak governance, and especially against outright and other forms of creeping expropriation by the host government. It may also work to prevent or minimize hostile actions by the local communities (Crowson, 2008). It is also, as mentioned previously, a response to pressure and scrutiny from, among others, NGOs, home and international community etc... (Webb & Carstens, 2008) Moreover, partnerships allow companies to be more effective in their community development initiatives and thereby improve their reputation with key stakeholders and reinforce their “social license to operate” (Sullivan & Warner, 2004).

Partnering with local government with the intention to address inadequate institutions implies involvement in “other countries’ internal affairs” to some extent. It is a controversial issue among both companies’ leaders and scholars (Frynas, 2009; Kline, 2003; Wilke & Wilke, 2008). Finding the boundaries up to where the business should get involved remains one of the main challenges in PPP from the business point of view. In fact, the failure to determine the appropriate limitation of involvement may (1) put the international company into conflict with the local authorities; (2) lead to operations which are hardly justifiable to shareholders; or may (3) create uncomfortable expectations among the stakeholders (IIED, 2006).

Besides the boundaries of corporate involvement, the divergence of interests, of expectations, and even in the time horizon is also a challenging issue when it comes to the success of a PPP aiming at capacity building. It mostly refers to the fact that commercial drivers remain the major incentive for business to get involved in such a partnership. The companies expect that the cooperation should be related to their core activity and should therefore participate in the profitability either directly or indirectly. This is not always matching the government interest which is mainly to generate additional means to broaden development activities. Thus, the challenge is to find where the corporate and the development objectives can meet (Crowson, 2008; Kolk, et al., 2008). Next, the issue of legitimacy, democracy and accountability is also critical. (Webb & Carstens, 2008). In addition, the dynamic of the sector is also a major challenge in the success of the implementation of a PPP for development. This refers to the "sector-coordinated morality", meaning that the companies' level of involvement into poverty alleviation initiatives depend on the commitment of other companies in the industry (Basu, 2001; Kolk & van Tulder, 2006).

2.3. The relationship between multinationals (MNCs) and host countries' governments (HC)

2.3.1. Obsolescing Bargaining Model (OBM)

The Obsolescing Bargaining Theory was first developed by Raymond Vernon (Vernon, 1971) in the 1970s on the premises of developing host countries and of vertically integrated extractive multinational corporations. It was meant to explain the negotiations between the multinational corporations (MNCs) and the host country government (HC). The context surrounding MNCs and HC relationships at that period was mostly based on distrust and conflict. HC governments tended to be highly interventionists and were most likely to act against the MNC's interests. Vernon developed the model to explain the dynamic of the bargaining power between the two entities.

According to the Obsolescing Bargain Model, the relation between MNC and HC is a function of goals, resources and constraints on each party. It argues that prior to the investment, the bargaining power favorises the multinationals as they possess the financial resources and technological ability that the host country lacks to exploit and develop its (natural) resources. The bargaining power of the MNC is reflected into the choice it has about either to invest or not in the host country. At this point then, because of its technological, financial and marketing dependence, the local government is more willing to accept the terms of the multinationals. This initial bargain however "obsolesces" over time. Once the MNC has made costly investments in the host country, the risks of opportunistic behavior from the HC decreases its initial bargaining power. Moreover, because of spillovers and economic development, local competitors may enter the market, reducing the HC dependency on the MNC's resources. And the longer the MNC stays in the host country, the lower the host government's perception of the benefit-cost ratio offered by the MNC; the OBT predicted then that the MNC would renegotiate the primary contract and would rather accept less favorable terms than to face expropriation (Eden, Lenway, & Schuler, 2004; Gould & Winters, 2007).

However, this traditional view of the bargaining power in multinational-government relationship has changed; the interaction between the two entities has evolved with time. First, opportunistic behaviors such as expropriations by the host government have been on the decline since the mid-70s. It is mostly the result of the democratization of institutions which has turned local officers into only "temporary executives" and because of the scrutiny and pressure made by international organizations over the host country, such as sets of rules, norms and decision making procedures. It implies that the host government bargaining power is not as strong as that predicted by Vernon in the OBT any longer (Jensen, 2005; Li, 2007 and Ramamurti, 2001 cited in (Gould & Winters, 2007)). Secondly, other studies have suggested that, multinationals can delay the obsolescence of their bargaining power by forming strategic alliances with local firms or by diversifying activities outside the host country (Grosse and Behrman, 1992 cited in (Eden, et al., 2004)).

2.3.2. Coopetition theory in MNC-Host government relationship

The Coopetition conceptual and typology framework has been developed by Yadong Luo in his study: *"A Coopetition perspective of MNC-host government relations"* (Luo, 2004). He based his arguments on the change in the nature of the relationship between multinational corporations and host country governments; a change from conflict and distrust to interdependence due to the evolution in the global politic and economy as well as to the advancement in technology. Such interdependence contains both collaborating and bargaining elements, hence the denomination coopetition which is a combination of the terms cooperation and competition. These two elements are assumed to occur simultaneously. It is because both parts depend on each other's resources and expertise while at the same time they are pursuing different, sometimes conflicting goals. Cooperation relates then to their needs to join efforts in order to overcome mutual challenges and to gain better payoffs while competition relates to the need to control or bargain in order to increase private gains at the expense of the other part's interests.

The framework is meant to demonstrate how coopetition occurs and how the behavior of the organizations may vary inside the coopetition setting. It is developed with the intention to propose strategic responses MNCs could use under different cooperation or competition situations. The concept has been developed using convergent insights from resource dependence theory, business political behavior theory, and also from networking, social exchange and bargaining power perspectives. The coopetition framework aligns competition and cooperation in a matrix showing the degree of competition and cooperation in the interaction between the MNC and the host government. Four types of attribute are then identified using the strategic needs of MNCs for local resources controlled by the host government. The framework proposes various options of political tactics to choose among for the MNCs.

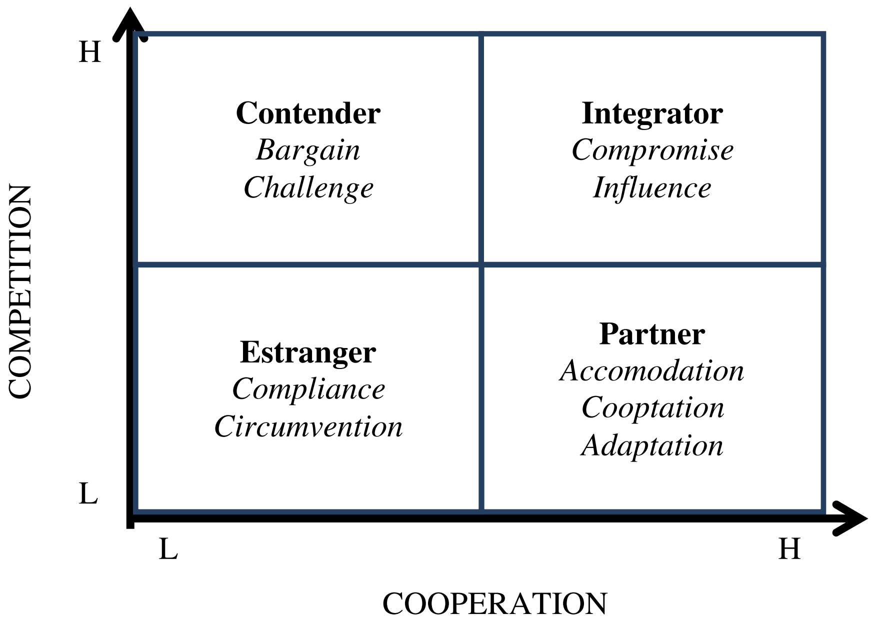


Figure 1: Typology of coopetition (Luo, 2004)

<u>The estranger MNC</u> is a multinational which maintains a relative distance from the host country government. It is relatively independent as it has a low need for the resources controlled by the local government. The level of interdependency between the two entities is low in this type of relationship. The recommended political responses for an estranger MNC are either **compliance:** conscience obedience to the local laws, regulations and policies; or **circumvention:** attempt to prevent obedience by maneuvering around governmental pressures and interventions. The first option suits MNCs when their costs of compliance to local laws are low; the second choice is suitable if the MNC is evolving in a market domain where they are largely free from government interventions.

<u>A contender MNC</u> is a multinational which maintains a high competition and a low cooperation with the local authorities. It is dependent on the local resources, mainly controlled by the host country government, to expand its international operations. There is an asymmetrical interdependence between the MNC and the government in such a situation and it mostly favors the host country government. The recommended political responses for a contender are either **bargaining:** negotiation in order to attain exchange of concessions with the local authorities, or **challenging:** contesting the regulatory requirements and expecting to make a virtue of their insurrection. The first option is suitable if the MNC owns high technological and organizational capabilities that the host country lacks. The second choice suits better MNCs with greater bargaining power and who are intending to enter the country on a short-term basis.

A partner MNC is a multinational maintaining a high cooperation and a low competition with the local government. The relationship between the two entities is based on alliance or coalition. It is mainly characterized by a high interdependence and mutual commitment. The MNCs bargaining power is assumed to be significantly high to the point that the host government is willing to make concessions in order to make the partnership work. The recommended political responses for partner MNCs are: (1) **accommodation:** the MNC signals a commitment to contribute to social needs along with the local government and thereby expects increased legitimacy and credibility among the host country; (2) **cooptation:** mutual assimilation of each others' goals in order to enhance legitimacy or neutralize potential conflicts; or (3) **adaptation:** efforts to establish a social relationship with the host authorities' officers by accepting and complying with the local culture, norms and standards. It aims to safeguard operations by inserting a personal dimension into the relationship between the two entities.

An integrator MNC is a multinational which maintains both a high competition and a high cooperation with the local authorities. In opposition to partners, it doesn't imperatively have compatible goals with the government. In fact, the two parts even bargain for the resources and the privileges. Such a type of relationship mostly concerns newly opened but not yet completely deregulated industries such as pharmaceutical, internet, insurance, bank etc… the political responses recommended for integrator MNC are either **compromise:** find a balance between the government requirements and the company's own interests in order to ensure a long-term cooperation with the government, or **influence:** undertake offensive measures such as lobbying, pressure from home government or international economic organizations in order to manipulate the host country's regulatory requirements.

Basically, the recommended response for a multinational depends on its bargaining power vis-à-vis the local government and on the anticipated gains as outcomes of the different tactics. It is also important to notice that the coopetition framework assumes that the identity of the multinational may change if the environmental and the organizational parameters reach certain limits such as the economic development, the political stability, the regulatory deterrence and the industrial growth in the host country. It is due to the fact that the cooperation and the competition level between the MNC and the host government can evolve in different directions in case of increase or decrease of one or more of the above mentioned parameters.

2.4. Public-Private Partnerships

2.4.1. Framework of analysis of partnerships

Van Tulder and Kostwinder, in *"From idea to partnership, Evaluating the effectiveness of development partnerships"* (Van Tulder & Kostwinder, 2007), developed a framework of analysis of partnerships. It is based on the assumption that even if partnerships are very different according to their nature and the context surrounding their implementations and their objectives, they evolve mostly with the same general pattern and therefore can be analyzed using the different stages as evaluation tools. As shown in figure 2, the analytical framework proposes that partnerships can be analyzed through four dimensions of its process: (a) input, (b) throughput (c), output, and (d) outcome. Additionally, they can also be evaluated according to their (e) efficiency and (f) effectiveness.

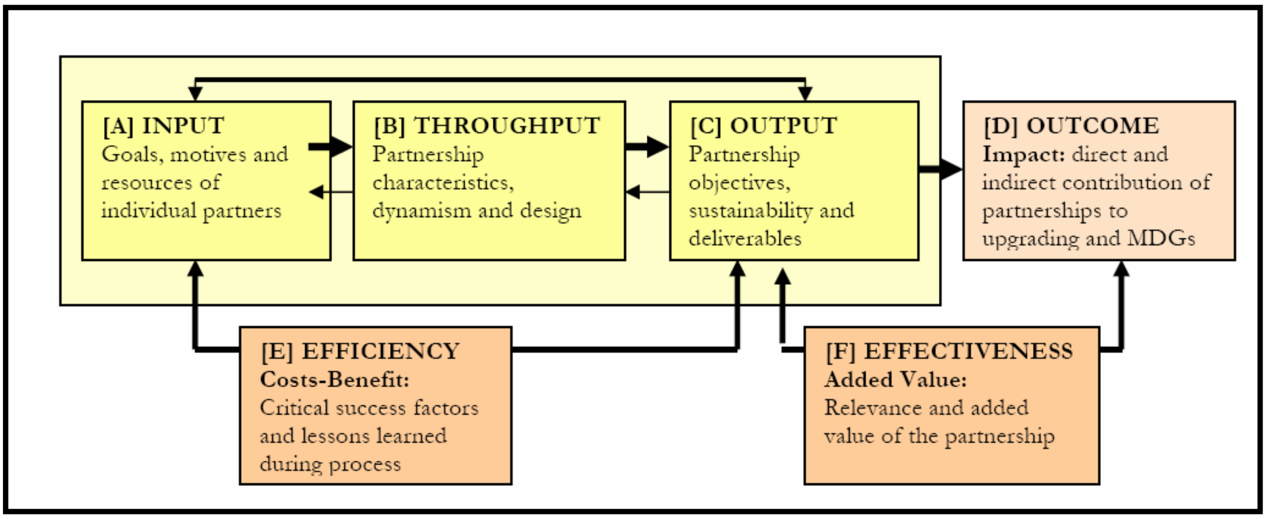


Figure 2: Framework of analysis of partnerships (Van Tulder & Kostwinder, 2007)

a. <u>Input of partnerships</u>: it refers to the required resources in order to implement the process. It includes material and immaterial resources like financial means and knowledge but also the goals and motivations of each partner. It is argued that these latter are strongly influenced by the societal background and the morality or virtues of the partners. The analysis of the input of partnerships mostly relies on discerning to what extent the partners are aware of the failure prior to entering the partnership. In fact, the willingness to cooperate and hence the success of the partnership depends on the good and reciprocal understanding of the type of failure to address. Recommended questions to analyze the input of partnerships include: finding out the reason why the partners recognize the necessity to start the project and what they expect from it; whether they were forced or pressured to enter the partnership or was it voluntary; what triggered the idea of the partnership? Etc…(Kolk, et al., 2008).

b. Throughput of partnerships: refers to the characteristics, the design of the partnership, as well as to the dynamics and the execution and the implementation process. The analysis of this stage consists on looking at the influence of the number and the nature of the participants on the running and performance of the partnership. It also consists in evaluating the role played by each partner and the degree of internal dependencies between them. The latter is affected by the importance of the participant in the stakeholder network, whether it is a primary or secondary stakeholder vis-à-vis the project. The key issue in the analysis of the throughput stage is to understand how the role chosen by each partner affects the focus of the partnership (Kolk, et al., 2008).

c. Output of partnerships: refers to the results of the partnership project. They could be goods and/or services, but can also be newly redefined goals for the partners. The output of partnerships should be evaluated according to three criteria: (1) whether the partnership has achieved its original objectives and addressed the sources of the "failure"; (2) whether the partnership has produced tangible, measurable results like for instance, evidence of institutional change thanks to the project; and (3) whether the results are sustainable (Kolk, et al., 2008).

d. Outcome of partnerships: refers to the contribution of the partnership to a wider societal context. What are the concrete impacts of the partnership compared with a unanimously accepted standard? For partnerships aiming to contribute to development for instance, the standard could be the Millennium Development Goals. The analysis of this stage relies on both standard quantitative measurements and on assessment of the perceived achievements by the participants and by other external stakeholders (Kolk, et al., 2008).

e. Efficiency of partnerships: it refers to the internal value-added of the partnership. Analysis of the efficiency of a partnership intends to find out whether the project was "worth it". A recommended tool to conduct such an evaluation is the cost-benefit analysis. Particularly, in addition to the concrete operating cost, one should also include the transaction and other unexpected additional costs from, for instance, complex negotiations. The analysis of the efficiency can also study the effects of the partnership on the goals and motivations of each partner in order to determine the success or failure factors of the project and to draw lessons from them (Kolk, et al., 2008).

f. Effectiveness of partnerships: refers to the added value and impacts of engaging into a partnership rather than having the participants act individually on their own. The analysis of the effectiveness of a partnership intends to find out whether the objectives could have been achieved by non-partnering. It may also find out whether another form of partnership or non-partnership would have produced the same result and to what extent the partnership could be reproduced.

2.5. Social Responsibility

2.5.1. Responsible engagement of corporate actors (in conflict zones)

The confederation of Norwegian Business and Industry (NHO), in collaboration with the Peace Research Institute of Oslo (PRIO) have published a guideline for Norwegian corporations operating internationally, and precisely in zones of conflicts about how to engage responsibly (Bomann-Larsen et al., 2003). Recognizing the importance of the social responsibilities of enterprises, NHO provides tools to help corporations to contribute to capacity building, namely in the competence of Human Rights and Anti-Corruption, in the countries they are operating and investing. The present conceptual framework is part of such tools. It proposes measures and ways of thinking that may help companies to make the right decisions in difficult situations and hopefully avoid or minimize the risks related to operating in regions marked by war or other political instability. Such guidelines are meant to be useful to all transnational companies as political situations, especially in developing countries, may change and worsen at anytime.

The concept of responsible engagement of corporate actors in conflict zones is based on the approach that what is constructive for the host country is also constructive for the multinational's business. It aims first to help businesses to promote stability and development in the areas they are operating. But most importantly, it also aims to reduce any eventual harmful side-effect caused by their very presence in such unstable regions. Its objective is to help managers to delimit the responsibility of their business in determining whether or when their companies are considered as co-responsible. The latter is referring to indirect responsibility and eventual complicity in wrongful acts by operating in "inadequate" areas. For illustration, oil companies operating in country with kleptocratic or/and oppressive regime may be considered as rather responsible for contributing to increase the wealth and power of the oppressive leaders rather than contributing to the economic development of the country.

The framework is developed from the traditional assessment tool *"Just war tradition"* which is used to assess actions in interstate relations in conflict situation. It is a check-list composed of six main criteria:

(1) *Legitimate purpose of business operations (Right intention):* it is to assess whether the activities of the company are acceptable for all stakeholders in the regions. It aims to determine that the company's operations do not produce negative consequences for any group of stakeholder.

(2) *Reasonable hope for success:* it is to assess the expected impact of the company's operations in the critical area. It aims to analyze the risks and consequences of the company's activities towards all stakeholders.

(3) *Direct and indirect responsibility (Double effect):* it is to assess both the company's intended ends and means through its activities and their eventual side-effects. First it aims to help companies to do more good than harm: ensure at least proportionality in the positive and negative effects of its activities. Secondly, it also aims to avoid being caught into unintentional complicity in someone else's wrongdoings.

(4) *Legitimate authority:* it refers to two things: first, whether the decision for responsible engagement has been taken by the "right authority" i.e. corporate governance; and secondly, what is the legitimate scope of the company's responsibility in the local society; it amounts to delimit the responsibility of the corporation vis-à-vis the responsibility of the host government.

(5) *Openness*: it is to assess the company's efforts to make its intentions, its activities as well as its involvement public. It aims to promote public declarations, transparency

and reporting about their goals, the means they use to achieve them and not least their roles in the regions.

(6) *Corporate identity and integrity:* it is related to the company's self-imposed and acknowledged policy. It aims to define what the company stands for and what kind of actions is acceptable under the company's self-understanding and to highlight what kind of actions the company will never do.

2.5.2. Multinationals and Less Developed Countries (LDC): De George's seven principles

In the same spirit as the NHO's guideline presented above, there are the seven principles developed by Richard T. De George (De George, 1993). They are meant to be used as an ethical codex for, originally, American multinational corporations operating in developing countries. These principles request multinationals and multinational managers to compete with integrity. It means that the organizations, as good and morally mature citizens, are sought to stand for ethical values.

1. Multinational corporations (MNCs) should not do intentional harm: firms are required to examine the effects of their acts in every stage of their value chains. This principle is derived from the concept of not killing or hurting others and treating them with respect. It refers mostly to toxic waste, sale of harmful products etc…

2. MNCs should produce more good than harm to the host country: it means that the multinationals' activities must also benefit the host country and not only their shareholders. This principle stresses that firms should be careful to seek most what is good for the ordinary people in the host country rather than for their leaders: to provide work and ensure that the population surpasses subsistence levels.

3. MNCs should contribute, by their activity, to the Less Developing Countries' (LDC) development: this principle requires multinationals to participate in a sustainable development of their host countries by sharing knowledge, technology and know-how with the local governments and with the local employees. They should aim to provide help to the host countries to attain self-sufficiency.

4. MNCs should respect the human rights of its employees. It refers mostly to host countries where the domestic institutions do not fully protect the human rights of the employees. Multinationals are then requested to not follow the standards in such countries if they undermine the employees' rights. For instance: multinationals should maintain decent wages for its employees even if that is not the local norm.

5. Respect and work with the local culture if it does not violate ethical norms: this principle concerns the obedience to the local laws, regulations and culture. MNCs are expected not to lobby against legislations that benefit the local workers and consumers. They are also required to include the locals in their decision making. They should not collaborate with repressive regimes.

6. MNCs should pay their fair share of taxes: it concerns the multinationals which tend to do transfer pricing, tax manipulation or tax avoidance or those hiding illegally earned money in tax havens. This principle incites firms to impose rules of fairness on oneself especially when the host country institutions are weak.

7. MNCs should cooperate with LDC governments in developing and enforcing just background institutions: multinationals should not take advantages of inadequate institutions and exploit people, bribe or extort. They should rather contribute to promote fairness and efficiency.

2.5.3. Boundaries of CSR actions (aiming to contribute to poverty alleviation) by MNCs in their Host Countries

Peter Newell and Jedrzej George Frynas in their article: *"Beyond CSR? Business, poverty and social justice: an introduction"* (Newell & Frynas, 2007) attempt to draw the boundaries for CSR initiatives by multinationals. They namely try to provide some answers to how, when and through what means business can help reduce poverty through their CSR actions. Their main argument is that the CSR activities essentially depend on the specific setting where the MNC is operating and more precisely on the prevailing political and social conditions in that host country. They, therefore, mean that there is no exportable CSR models, what have worked in one context may not provide the same successful results if repeated in another country. It is important to define properly the type of challenges the CSR intend to overcome in order to choose the most appropriate model of CSR to implement. For instance, codes of conduct may not be very efficient to address discrimination and harassment in workplaces, or compliance with international environment standards may assure production process according to the norm but will not be sufficient to address any eventual externalities caused by the process itself.

They determine the importance of the process and the role of the state as the two main elements to assess while identifying the boundaries of a CSR activity for poverty alleviation.

The process: First, focus on the process, rather than on the output of the CSR initiative, is recommended if it is to benefit the poorer and the marginalized groups. It is important that the intended beneficiaries are participating in the process from the designing, the enforcement and the evaluation of the CSR project. They are effectively the ones who know the situation best. Secondly, a legal process such as access to justice, mechanisms of appeal and compensation, should be available, also for the poor, in case of social irresponsibility; that is, in case the operations of the MNC worked against the interests of the most vulnerable groups of stakeholders. It namely refers to the fact that adherence to international standards and codes of conduct is a good thing but they need to be transformed into practical solutions at the bottom line as well.

The state: it remains to be the main responsible for development and poverty alleviation in a country. The terms and conditions for the role of business are still principally defined and administrated by the government through legal systems, incentives and disincentives like tax system and other regulations. Even in countries with the most dysfunctional institutions, the state remains the most influential authority in the country when it comes to development or poverty alleviation decisions. The degree of engagement of MNCs in CSR aiming at poverty alleviation is therefore function of the actions of and measures taken by the local government towards this goal. The failure of the state to take care of the poor often pushes other groups, such as NGOs, corporations or local communities and the like, to take actions and get more involved in poverty alleviation initiatives.

2.6. The sector dynamic

2.6.1. Collaboration and Collective Strategy

Graham W. Astley in his article *"Toward an appreciation of collective strategy"* (Astley, 1984) made a comprehensive review of the evolution of the theories about the relationship between an organization and its environment. He namely looked at the approaches to organization theory and business policy. He combined these two theories in a matrix with the type of managerial behavior (deterministic or voluntaristic) on the one hand and the level of analysis (single organizations or population of organizations) on the other. He then determined that the relationship has been first approached as constraint, then it evolved into choice, then to competition and finally to collaboration as presented in figure 3 below.

	Voluntaristic orientation		***Deterministic orientation***	
Single organizations	Critical variable in organization – environment relations:	Choice	Critical variable in organization – environment relations:	Constraints
	Organization theory perspective:	Strategic choice	Organization theory perspective:	Contingency theory
	Business policy perspective:	Corporate strategy	Business policy perspective:	Business strategy
		Q2	Q1	
Population of organizations		Q4	Q3	
	Critical variable in organization – environment relations:	Collaboration	Critical variable in organization – environment relations:	Competition
	Organization theory perspective:	Human ecology	Organization theory perspective:	Population ecology
	Business policy perspective:	Collective strategy	Business policy perspective:	Industrial strategy

(Astley, 1984)

Figure 3: A Classification of Approaches to Organization Theory and Business Policy

<u>*From constraint to choice:*</u> From Q1 to Q2: in the beginning, the organization theory approach considered that the environment dictates the organization's activity. Thus, the organization has limited response alternatives. It is the contingency theory. Later, the approach evolved into a more voluntaristic orientation and managers were presented to create and define their own environment by proactively choosing what is good or bad for their organizations.

The business policy approach, in its turn, distinguished between business and corporate strategy. The first referring to the strategy towards the competition within a particular product or market segment and thus to the task environment; and the second referring to the strategy toward the organization's operating domain, thus to the general environment. This approach led the managers to shift from being business strategy oriented to more corporate strategy oriented thus more diversified and larger organizations.

From choice to competition: from Q2 to Q3: then, the notion of niche-structured environment emerged as theorists became more aware of the nature and distribution of the resources in the organization's environment and that the organizations within the niche are depending on the same resources. The organization theory approach then shifted into competition for resources as the main activity of the organizations since they have to find the niche where they fit into in order to survive. The level of analysis has now evolved into population of organizations and the focus on the strategies and actions organizations do in order to get some influences in the niche.

The business policy approach also changed focus into the whole industry thus the industrial strategy. It argued that the opportunities and threats created by the changes in the market define the market structure, which in its turn determines the organizations' actions. Hence, firms have to compete in order to take advantages of the opportunities and overcome the threats.

From competition to collaboration: From Q3 to Q4: in the organization theory approach, theorists started to stress on the importance of resource and capability interdependencies between organizations both within the same domain and across different industries. Such interdependencies force organizations to build networks and to enter collaborative social and political arrangements. The social environment thus moderates the effects of competition between organizations.

In terms of business policy, the complex interdependencies and interconnection of the environment create turbulences that are sometimes hardly predictable for the organizations. It concerns many social, legal and political factors in the environment. Organizations may therefore not be able to choose the appropriate course of actions to face those turbulences. Moreover, persisting in conducting independent actions may even create unexpected and discordant consequences worsening the situation and leading to more disturbances in the overall shared-environment. Hence the theorists call for a collective collaborative response to manage such a situation.

2.6.2. Conditional Morality

In his article *"on the goals of development"* (Basu, 2001), Kaushik Basu raised the question why many nations' goals, which are generally considered as essential for their future development, end up being set aside in practice. He argued that the explanation to this is Conditional Morality. Basu's assertion is that the human being is subject to conditional morality; it means that one is willing to make some sacrifices in order to achieve a common good as long as others are also making equivalent sacrifices.

According to Basu, much of our moralities, especially those leading to actions, are conditioned. He explained this conditionality by the human's innate tendency to maximize utility. Thus, everybody wants to adhere to some morality; however no one wants to be "a sucker". He illustrated his point of view by the example of international labor standards: labor standards are important matters within developing countries, more than in western countries. It is because any action undertaken by one country to improve its labor standards may work on its own disfavor as it leads to an increase in the costs of labors. However, it would have been beneficial to all countries if they improve the level of labor standards through a coordinated action. Assuming that they would go for the latter solution, Basu's argument is that each nation will be willing to forgo the action as long as the other nations do the same, despite the risk for free-riding. Basu concluded then that Conditional Morality represents a good motivation to trigger coordinated behavior in order to achieve developmental behavior.

2.7. Proposed explanations

The focus of this study is the implementation of a collaborative partnership between a multinational and the host country's government. The involvement of BP in Azerbaijan is considered as a benchmark in SR activities because it is one of the first attempts by a multinational corporation to address failure on the mezzo-institutional level. Our intention is to find out what triggered the wish to start a partnership for development and to provide explanation about the success of the implementation of the partnership. In Van Tulder and

Kostwinder's framework, it concerns mostly the input dimension in the evolution of partnership. We would also like to point out that our first motive is basically to analyze the phenomenon mostly from the multinational point of view. We propose then the following explanations out of the theories previously elaborated:

The theory argues that upon a mutual understanding of the failure depends the willingness and commitment to enter such partnership. The understanding of any failure, in this case governance failure, depends on the norms and values of each partner, hence the argument that the motivations and goals to enter a partnership are strongly influenced by the societal background and the morality and virtue of the each partner. Furthermore, from the corporation point of view, given the quite non-negligible risks related to the interference of a multinational into the host country internal affairs; it is not obvious that a corporation would be eager to get involved in such partnership. Thus it suggests that the driver(s) behind the corporation's decision must be really strong and well anchored in its corporate value. Hence our proposition number one:

***Proposition 1**: the societal background and the morality and virtue of a multinational determine its decision to engage into a PPP for capacity building.*

Secondly and still related to the mutual understanding of the failure, there are the challenges with respect to conflict of interests. Host governments and multinationals have clearly divergent interests; it refers to the competition in the multinational-government relationship theory. It is very important that both parties are convinced of the necessity to address the failure, thus the advantages they both could get from well-functioning institutions so as to bring them to start a collaborative cooperation. Our second proposition is therefore:

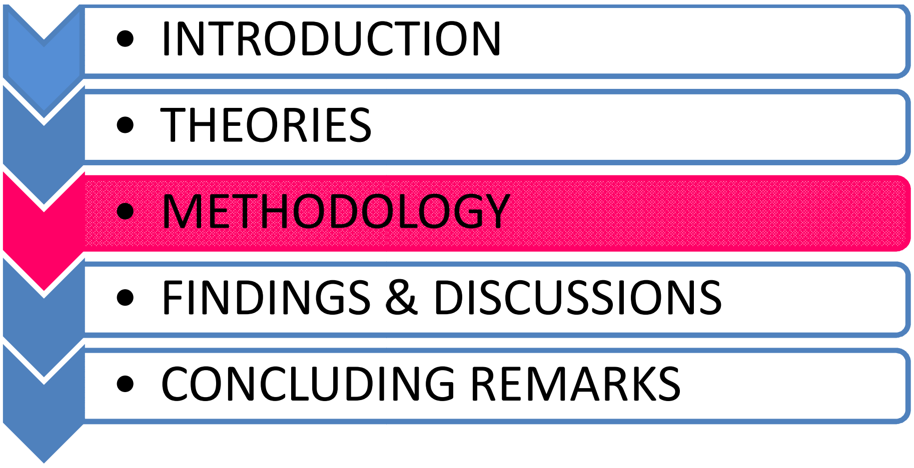
***Proposition 2**: the higher the expected value-added and the contribution of the partnership compared to the disadvantages caused by the governance failure, the stronger the chance to bring host government and multinational into a partnership.*

Third, the controversial question about the multinational's interference in internal affairs in the host country is one of the main challenges to overcome in implementing PPP for capacity building. Frameworks such as the one proposed by NHO may help corporations to draw the line of their involvement in this matter. The limit of how far a corporation can intervene is however highly depending on the political situation and on the existing regime and institutions in the host country. Omission from the local authorities to address failures correctly (corruption, transparency…) or simply inadequacy such as oppression and kleptocracy put pressures on the multinational to draw the boundary of their involvement as further as possible and incite them to engage in capacity building activities. We therefore propose:

Proposition 3*: the stability and capability of the host government is determinant for the involvement of a MNC in a PPP aiming at capacity building.*

And fourth, the shift in the bargaining power according to obsolescing bargaining theory may augment the risks related to political situation for multinationals. It is even more relevant in unstable areas where the local institutions are inadequate. Facing such turbulences, according to the collective strategy theory, firms would have considerable influence and would be more effective in addressing governance failure if they join their force and engage in collaborative network. Further, as according to conditional morality, it may also explain the willingness of companies to get involve into capacity building initiatives. Corporations would be more willing to intervene in the host country's governance issues, and thereby getting to be exposed to higher political risks, if others in the industry are supportive and are also committing themselves to the same matter of contention. Kolk and Van Tulder calls it the "sector-coordinated maturity" (Kolk & van Tulder, 2006). Hence our last proposition:

Proposition 4*: the stronger the support from other companies in the industry, the higher the chance that the implementation of a PPP for capacity building would succeed.*



III- METHODOLOGY

3.1. Research methodology

The research methodology refers to the design of the study. It indicates the basic directions for carrying the project. In its broadest sense, methods refer to the *"mode and framework for engaging with empirical material"* (Alvesson and Deetz, 2000 cited in (Marschan-Piekkari & Welch, 2004)). While starting this study, we had the choice between the two main approaches for research design: the quantitative and the qualitative. Quantitative research design, usually associated with the elementally amount of something, deals with measurements, causality and generalization. It is mostly useful for testing hypothesis. Qualitative research method on the other hand is mostly related to the essential nature of things. It mainly deals with deeper understanding, contextualization and processes. It is most useful for discovering and for getting in-depth information (Berg, 2007; Hair, Money, Samouel, & Page, 2007).

Arguments go that a qualitative method is most suitable for international business study because it allows the researcher to go beyond the measurement of observable behaviors to undercover the meaning and beliefs behind actions. Moreover, because of its ability to treat and analyze rich and diverse data, a qualitative method is considered more apt to provide answer to "messy" and complex issues typical for international management (Marschan-Piekkari & Welch, 2004). For all these reasons, we have therefore chosen to conduct a qualitative study.

Our study explores, in fact, a particular phenomenon in multinational corporations and host country government relationships. It aims to seek for a deeper understanding of the conditions and requirements favoring constructive collaborations between those entities. The emphasis is on the interactions between the variables and the contexts and it will also look closer into the settings in which the phenomenon occurs. Moreover, as stated earlier the research area is pretty recent, thus the theories are not yet very well established.

3.2. Qualitative research methods by triangulations

The phenomenon under investigation in this study is the circumstances; it implies that there are different interpretations and different ways to look at the facts. In addition, the case happened in a recent past. In an attempt to shed light on the phenomenon from various vantage points, the method of triangulation has been preferred for this investigation.

Developed from navigation and military strategy, triangulation is based on the use of multiple reference-points to best estimate the exact location of an object. Applied to social sciences researches, it refers to the use of mixed-methods to assess the different characteristics of the phenomenon to be studied. Each method is in fact assumed to reveal a different facet of the same phenomenon; combining them in conducting one study would provide a better and a more holistic picture of the unit under study (Berg, 2007; Scandura & Williams, 2000). In the present study, we have chosen to apply the four different types of triangulation: (1) Data sources triangulation: use different sources to look for the same data in order to assess if it remains unchanged in different contexts; (2) Investigator triangulation: when different perspectives from different investigators are used to examine the same phenomenon; (3) Theory triangulation: use of different points of view to interpret the same results and (4) Methodological triangulation: use of different approaches in order to augment the confidence in the interpretation (Denzin, 2009).

First, with respect to the sources of evidences, the investigators used documentation, archival records and interviews as data sources, and incorporated the company, the host country's government and other civil societies as well as the negotiation facilitators' vantage points to examine the phenomenon. Next, two investigators were working on the present study resulting in two different perspectives on the analysis of the phenomenon. Further, referring to the previous chapter, a set of different theories is used to shed light on the phenomenon investigated in this study from different points of view. And last, different approaches within qualitative methodology were employed during data collection and analysis: namely unobtrusive measures such as documentation and commercial media accounts analysis combined with case-study. Our intention is to map a complete overview of the phenomenon both with regard to the events and their timeline happening.

3.3. Data collection

Data collection refers to generating the empirical materials which are relevant to explain and investigate the phenomenon. The particularity of a qualitative method is that the analysis of the data, unlike with a quantitative data analysis, occurs at the same time as the data collection phase rather than consecutive to it. The two phases are repeatedly referring back to each other. Qualitative data analysis is hence an iterative process, which means that the investigators shape and orient the next step in data collection and sometimes even reformulate their hypothesis according to the finding in the initial observations (Bryman & Bell, 2007).

Methods for data collection and analysis may include participants' observations, interview-based case studies, content analysis, discourse analysis, focus groups, narrative interviews, unobtrusive methods such as archival research (Berg, 2007). Given the nature of the phenomenon we are investigating, the main sources of evidence in use in this study are documentation, commercial media accounts and interviews.

3.3.1. Documentation and commercial media accounts

We started our data collection by exploring the BP Caspian website. We mostly looked at press releases, sustainability reports and other featured documents during the period when the phenomenon occurred: 2002-2004. The intention was to find out BP's engagement in Azerbaijan in terms of SR in general and in terms of transparency with respect to the EITI initiative in particular. Further, we also looked at different documentations and records describing the BP's position in Azerbaijan. We also examined the EITI's website, documents, publications and interviews from international organizations like the Revenue Watch Institute, as well as other international press articles in search of publications and press articles about the EITI initiative in general and about Azerbaijan commitment to pilot the initiative more particularly.

Besides, we also reviewed a large amount of press articles, international TV reports, local English speaking websites, videos interviews and speeches of Azerbaijan officials and other personalities related to Azerbaijan with the intention to discover the motivation behind the engagement of the Azeri regime to enhance transparency. Next, we also dug into different publications from international organizations such as the World Bank, Transparency International, Human Rights Watch, and so on… for a description of the Azeri regime, state, political and socio-economic system. Then, again, we cross-checked them with various video reports and documentaries and other press articles from international TV and newspapers.

We also checked publications from other oil companies operating in Azerbaijan such as STATOIL, Shell… to get other vantage points of the oil industry collaboration, oil revenue transparency, and the situation in general in Azerbaijan. And last but not least, in order to go even deeper in our investigation, we also examined also more specific articles such as academic and other analytic articles about Azerbaijan, its oil sector and the EITI initiative in the country. We mostly used the snowball method in order to find out the relevant materials we needed: it means we used names or events mentioned in one article as keywords for further search.

The collected data were stored in a common online database (Google documents). The investigators could then have access to each other's collected data while doing the analysis.

3.3.2. The interview

In our preliminary data collection, we quickly found out that Norway plays a significant role in promoting and supporting the EITI worldwide but especially in Azerbaijan. The Norwegian embassy has been involved as facilitators during the negotiations which led to the Memorandum of Understanding on the establishment of EITI in Azerbaijan and a Norwegian consulting firm is one of the validating units for EITI. Moreover, we also found out that the EITI secretariat is located in Oslo. We made contact with those entities and tried to arrange meetings. It resulted into a phone-interview with the communication manager of the EITI secretariat in Oslo, Anders Tunold Kråkenes.

Both investigators were present and conducted the interview in tandem. It lasted about fifty minutes and was a semi-structured focused interview, almost a guided conversation: we have prepared some key words and have formulated some questions. There was no precise order in how the questions should be asked, and the interviewer came up with additional questions during the interview. We were interested in his opinions and insights concerning the EITI in general: challenges and benefits…, and the EITI and Azerbaijan: motivation and decision to implement and so on. He also suggested us other sources of evidences we could investigate further. For technical reasons it was not possible to tape the interview so the interviewers took separate notes during the interview. Then they compared their transcripts in order to ensure accuracy. The transcript of the interview is attached in the appendix.

3.3.3. Challenge

The most frustrating element during the data collection was to obtain replies from the key persons we have identified as relevant in providing us useful evidences. The most typical answer we got, when we got any answer at all, was that the entity does not respond to the enquiries from students. The only interview we managed to get was initiated by the recommendation of someone with whom one of the investigators incidentally happened to discuss about her work. It is though understandable that given the amount of enquiries, companies such as BP, for instance, annually receive from students, they may not have the capacity to satisfy each and every one of them; therefore the researchers would recommend strongly the use of personal network to obtain a meeting with a potential contact for future students to conduct a research project.

3.4. Data analysis

There are generally two main strategies for qualitative data analysis which are frequently used: analytic induction and grounded theory. The first refers to an approach in which the investigator *"seeks universal explanations of phenomena by pursuing the collection of data until no cases that are inconsistent with a hypothetical explanation (deviant or negative cases) of a phenomenon are found"* (Bryman & Bell, 2007). While grounded theory is defined as *"theory that was derived from data, systematically gathered and analyzed through process. In this method, data collection, analysis, and eventually theory stand in close relationship to one another"*(Strauss & Corbin, 1998).

Although the present study does not intend to develop any theory but rather to explain a phenomenon, the investigators adopted a procedure similar to the grounded theory strategy. In addition, as a general analytic strategy we were mostly using a method developed from pattern-matching. This technique consists in comparing an empirically based pattern with a predicted one. If the patterns match, the internal reliability of the study is enhanced (Trochim, 1989). In our case, the pattern is illustrated by the proposed explanation we have developed from the theories. We then compared the reality, namely BP's history in Azerbaijan, with our predicted explanations. When the pattern didn't match, we tried to develop rival explanations.

During the first phase of the analysis (and data collection) the investigators worked separately. They collected data and conducted the analysis individually after agreeing on the type of data to collect with regards to the theories and the developed propositions. Then during the second phase, the investigators combined and discussed their findings and interpretations together and developed a common explanation of the phenomenon.

Concretely, the data analysis consists of investigating, classifying, indexing and/or reconnecting the evidence in order to justify or reject the initial propositions of a study. We used the assistance of a qualitative data analysis software program, NVIVO 9, in our analysis. We started by coding the texts, videos and interview transcripts into different categories as we read, viewed through our data. The details of the categorization are available in the study protocol listed in appendix B. Next, we analyzed each category: we compared the findings with our proposed explanations and we contrasted them against the theoretical basis of our study. As we progressed, we went back collecting more data again and repeated the coding and analysis many times until we could produce satisfactory explanations for the phenomenon under study.

For our first explanation, we argue that the societal background and the morality and virtue of a multinational determine its decision to engage into a partnership with the local government to address governance issues. In order to find out whether this explanation fits with the reality of our case, we went investigating into BP's history, background and CSR rhetoric. We also looked into how the company comprehends its role as an influential multinational in a country where the institutions are weak and inadequate. Our goal is to weigh whether these proposed attributes are strong enough to trigger such commitment in a multinational company.

Our second proposed explanation stresses the importance of the expected value-added and contributions of the partnership as one of the reasons which bring multinationals and host government together to start a partnership for capacity building. Basing our investigation on the framework of analysis of partnerships presented in previous sections, we mostly looked at the reasons why BP and the Azerbaijan government recognized the necessity to start such partnership and what they expected from it. The objective is to find whether these expectations, when compared with the disadvantages from the governance failures, contributed to overcome conflict of interests and helped in their decisions to join the partnership.

In our third explanation, we propose that the stability and capability of the host government are determinant in the multinational's decision to get involved in capacity building. Our analysis of this category is based on the investigation of the negative consequences of inadequate institutions on the Azeri population. Further, we compared them with the actions BP was/is undertaking in order to contribute to address the problems. Our purpose is to determine the drive that explains BP's motivation to accept the partnership with the Azerbaijan authorities.

Our last proposition states that the support from the industry incites the MNC to enter in capacity building partnership with the local government. We investigated the oil and gas sector in Azerbaijan and the involvement of the oil companies operating there. We also looked at the BP's position and influence in the country. Our intention is to find out the extent to which the industry dynamic is influencing a multinational's decision to enter a PPP aiming to address governance failure.

3.5. Validity and reliability

3.5.1. Construct validity

The test of the construct validity of a research study is to ensure that operational measures for the concept to be studied are correctly identified. The issue of construct validity is very relevant in a case study research. In fact, it can happen that the case study investigators fail to sufficiently develop an operational set of measures of the phenomenon and that they mostly rely on their subjective judgments while collecting data (Yin, 2009). In the present study, the issue of construct validity is addressed by the use of triangulation methods: first, the researchers used three different sources of evidences in order to obtain correct measures of the same elements of the phenomenon; secondly, the operational measures have been chosen in collaboration between the two investigators, this is to enhance objectivity in the judgment for the data collection.

3.5.2. Generalization - External validity

The external validity test is to define the domain within which the findings of the investigation can be generalized. It is a common critic of case studies that the results of single-cases are hardly applicable to different settings (Yin, 2009). The present study is a descriptive of an initiative aspiring to address a failure that is common in most developing countries endowed with natural resources. It is not meant to develop general theories but rather to investigate into a case that may be used as a benchmark and replicated for other extractive companies operating in the same settings.

3.5.3. Reliability

The test of reliability is to ensure that if the procedures followed during the study are to be repeated, it will lead to the same findings and conclusions (Yin, 2009). The researchers have started the present work by drawing a case study protocol inspired by Robert K. Yin. It helped us to stay in focus while conducting the study. It contains the procedures and directives we have been following during our work, and more specifically while doing the data collection. As we progressed in our work, it has also been continuously updated so as to become a research log. It is therefore also useful to enhance the reliability of the study so that any critical reader may refer to it later. The study protocol is attached in the appendix.

IV- FINDINGS AND DISCUSSIONS

4.1. Facts and background

4.1.1 Oil industry in Azerbaijan

Azerbaijan has been a major oil producer since the late 19th century. But the new oil boom came after its independence from the Soviet Union in 1991. The history of the development of Azeri oil industry is divided into several stages. Back to 1847, **the first stage** is marked by the transition from mechanical to industrial production of oil. This period also saw the construction of the first refinery in Baku connected with the first oil pipeline to Russia. **The second stage** started in 1920; it was characterized by the nationalization of the oil industry of Azerbaijan and the discovery of a number of new oil fields. **The third stage** saw the development of offshore oil industry in Azerbaijan and the establishment of the world first offshore field in the open sea. **The fourth stage** started in 1969 and is characterized by the fast development of the oil and gas sector and the increase in the total production of oil and gas together with a lot of new drilling plants. **The fifth stage** takes its starting point with the collapse of the USSR and the birth of an altogether new oil strategy. It covers the period since Azerbaijan's independence and up to the present (Azerbaijan.az, 2010).

By the end of 1994, foreign oil companies signed Production Sharing Agreements (PSAs) with the Azerbaijan government to help develop oil and gas deposits in the Caspian Sea. The PSAs concern namely the exploitation of the Azeri-Chirag and deepwater Gunashli – ACG – oil fields and the Shah-Deniz gas field; as well as the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline and the South Caucasus Gas pipeline. This paved the way for international oil companies to invest in the country so it created a lot of Foreign Direct Investment (FDI). The oil production started in 2006, while the gas production began in 2008. The PSAs are very important for the country of Azerbaijan and its economy and it also signaled liability and the fact that foreign companies could trust and have confidence in putting their money into projects in the country with more faith and confidence than before (World.Bank, 2009).

The main figures in the Azerbaijan oil industry are: (1) the State Oil Company of the Azerbaijan Republic (SOCAR), created in 1992, it is one of the world's largest oil companies. Its activities range from oil and gas production, to refinery, exploiting the country's pipelines and overseeing of the consortium of foreign oil operators. (2) The Azerbaijan International Operators Company (AIOC) is the consortium created in 1995 and which operates under the PSA. It is constituted of the 10 major international oil companies such as BP, Exxon Mobil, Statoil, LUKoil etc… (3) In order to safeguard prospective oil revenues, the State Oil Fund of Azerbaijan (SOFAZ) was created in December 1999. Its purpose was to perform both stabilization and savings functions (Azerbaijan.International, 1998a; BP.Caspian, 2011f; Mbendi, 2011; SOFAZ, 2011a).

One can say that Azerbaijan entered a new chapter or stage in 2006, as new oil flowed into the BTC pipeline. The world-class pipeline transports and exports ACG crude oil and Shah-Deniz condensate 1760 kilometers from Azerbaijan through Tbilisi, Georgia and all the way to Ceyhan on the Turkish Mediterranean coast. It is worth noting that BP is the major shareholder in the BTC pipeline with 30.1 percent of the equity. The choice of transiting the pipeline through Georgia was motivated by international pressure to avoid the already energy super-power Russia and the unpredictable regime of Iran (Barker, 2008; BP.Caspian, 2011b).

As for the statistics, the oil reserve of Azerbaijan is estimated to be about US$ 80 billion. Per 2007, the oil production of Azerbaijan was making 1.09 percent of the world production. A significant part of the country's production is for exportation. It also represents 70 percent of the country's total export. The oil production of Azerbaijan is estimated to reach its peak in 2014. In 2011, the oil revenue makes up 68 percent of the state-budget revenue. The country's largest offshore fields, the ACG, ensure 65 percent of these revenues (Mbendi, 2011; Theroux, 2000).

4.1.2. Azerbaijan: socio-economic and political situation

Figure 4: Azerbaijan and its neighbors (Azerbaijan.International, 1998b)

The population of Azerbaijan is 8.303 million people (2010) with the city of Baku as their capital in which over 2 million people live. It borders the oil rich Caspian Sea to the East, Russia to the North, Georgia to the Northwest, Armenia to the West, and Turkey and Iran to the South. The country is ranked as a lower middle-income country. Azerbaijan's main economic incomes are oil and gas which covers about 54 percent of the GDP; but it also has income from its agriculture which contributes with around 6 percent of the GDP. A paradox here is that even if the agriculture is small scale it gives almost half of all the households in the country bread on the table and thereby livelihood (World.Bank, 2009).

Azerbaijan became independent from the Soviet Union in 1991 and started off as a poor country; in 2001, 49 percent of the population lived below the poverty line. Reports from the daily life in Azerbaijan show that the claimed economic growth, and especially the oil profit, does not reach the large majority of the Azeri population. Worse, a massive inflation has driven the prices high and the purchasing power low. The average salary is barely $250 per month and more than half of the population still survive below the poverty line (Barker, 2008; Lee, 2008; Theroux, 2000; World.Bank, 2009).

In the early 1990s, Azerbaijan was a country in transition and went through a lot of changes and had to deal with problems like contraction of economic activity and poverty to name but a few. To make matters worse they also engaged in an armed conflict with neighboring Armenia over the area of Nagorno-Karabakh. Because of this conflict the country now hosts about one million refugees and internally displaced people. A ceasefire was negotiated in 1994 but as of today they still have not reached an agreement, but the armed conflict is over. The economy started to get better in 1995 with greater political stability (Mammadov, 2010; World.Bank, 2009).

The Azerbaijan government received support from the World Bank and the International Monetary Fund (IMF) from the late 1990s to undertake reform programs in the country. The reforms tried to stabilize the economy to begin with and as time went by they were increasingly meant to develop the private sector, and to improve the governance in the banking sector. A new and more modern and updated version of the country's tax code were also needed. This is still under implementation but there have already been a number of positive changes in the country's legislation. Azerbaijan is also a leader in compliance with the Extractive Industry Transparency Initiative (EITI), and the country has also received the UN Public Service Award in June of 2007 (World.Bank, 2009).

In 2006 the oil revenues were getting higher and with that money the government began upgrading the country's infrastructure which is positive for a lot of reasons and among them is that the non-oil sector benefits from this modernization. Azerbaijan's effort in this concern helps build a platform for diversification and sustainability of the economy. Important reforms have already been completed in many areas such as health care and education. Thanks to all these efforts Azerbaijan managed to ameliorate its business environment and even to be scored as *"top reformer in improving business regulations among 185 assessed countries in Doing Business 2009"* (World.Bank, 2009).

Lately, in term of diversification and to promote non-oil sector, President Ilham Aliyev also expresses his intention to seriously develop the ICT and transport sectors in order to avoid the Dutch Disease trap and to ensure economic sustainability in the after-oil period (World.business, 2009). As mentioned earlier, the oil production in Azerbaijan is indeed predicted to reach its highest level in 2014 with a record of 1.3 million barrels per day; then it is expected to drop to its lowest level with 0.9 million bpd by 2035 (Azernews, 2010).

However, the main barriers to economic prosperity and development in Azerbaijan are said to reside in its political system and societal structures. Azerbaijan is, to say the less, not a democratic regime, despite all claims by the authorities. Furthermore the country ranks 143rd out of 180 countries in Transparency International's Corruption Index. Systemic corruption coupled with an authoritarian, quasi repressive regime contributes to make the economic and political stability in Azerbaijan vulnerable. In fact, the political system is based on a closed governing elites gathered around the president. There is not really room for meaningful debates which are necessary to create dynamism and changes. Moreover, while the government imposes restrictions on any political activism, the opposition itself is too divided and lacks strong leaders to conduct meaningful revolutions (Freizer, 2010).

On the international scene, Azerbaijan plays quite an important role in the geopolitics of the Caspian Sea and the South Caucasus. With about 99.2 percent of its population of Islamic religion, Azerbaijan remains however a secular country. Presidents Aliyev, both father and son (who succeeded the father in 2003 while he was terminally ill), have chosen a pro-Western international politics strategies and are opening up the country to capitalism. The oil-rich Azerbaijan is therefore a non-negligible ally for Europe, NATO and the US in such a sensitive region as the Caucasus; and this is moreover because the country maintains friendly relationships with its influential neighbors Russia and Turkey, and not least with the unreliable regime of Iran (Browne, 2010; Mammadov, 2010).

4.1.3. BP's history

BP was incorporated in 1909 as the Anglo-Persian Oil Company. By its 100 years' anniversary, the now called, British Petroleum Company plc (BP Plc) is one of the five largest oil companies in the world and is UK's largest corporation. It employs about 53.700 people from a lot of different countries and has sales up to US$ 69.8 billion per year. BP is involved in all aspects of the oil industry, from exploration to marketing and is better known to most people because of their 16,400 service stations around the world (RFB, 2011).

BP is the third biggest oil corporation worldwide after Exxon Mobil and the Shell Group. The expansion of BP as a global actor started with the take over of Amoco in 1998. It is considered as the largest merger in the industrial history. The company now operates in 23 different countries (Christiansen, 2002). BP is also known for being the best-in-the-class among oil companies in term of Social Responsibility. It is partly granted as the influence of its former CEO, Lord John Browne, and partly as lessons learned from incidents the company has been through.

Lord Browne was indeed the CEO that changed the face of BP forever. Endowed with a "*sense of responsibility for the planet and its occupants*" as he qualifies himself, he used to be very proactive on environmental issues and on wider Corporate Responsibility during his mandate at the head of BP. He is namely remembered as the first oil company's CEO to have ever acknowledged the important role of the oil industry in global warming, which earned him and his company the disapproval of the major other oil companies. His famous speech in Stanford was then considered as a "betrayal" of the whole oil sector (Brower, 2010; Browne, 2010).

As many other oil companies BP has surely had its accidents and oil spills. In 2005, an explosion in a BP refinery in Texas killed 15 workers. In 2006, over 250,000 gallons of oil spilled through rusted sections of the BP pipeline in Alaska. The latter namely led to a partial shutdown of the company's field at Prudhoe Bay and a costly cleanup. Critics say that both accidents were caused by poor maintenance due to cost-cutting measures instituted by BP executives (Tharoor, 2010). On April 20, 2010, the BP-operated offshore oil rig Deepwater Horizon exploded and sank into the Gulf of Mexico becoming the worst industrial environmental disaster in U.S. history. Eleven workers were killed and more than 200 million gallons of oil were dumped into the Gulf of Mexico (Cleveland, 2010; DemocracyNow, 2010).

Beside, two other serious incidents marked BP's history and led to notable consequences on the company's commitment to better behavior. They are namely the mistake of being insensitive to local political realities in Colombia and the failed transparency attempt in Angola. The first refers to a contract BP has made with the Colombian Defense Ministry to ensure the protection of its staffs and assets against the attacks of the local guerilla activists. The problem was that the Colombian military has the reputation of being one of the worst in the world in term of human rights abuses. BP had to renegotiate its agreements in Colombia and initiate independent investigation to clear itself from accusations of complicity in human rights violations. Still the incident has raised allegations internationally and drastically affected BP's reputation. BP has learned its lesson the hard way, henceforth, it aims, in all its activities since Colombia, to be a benchmark company *"showing enlightened self-interest by collaborating in a novel way with government, international organizations, and NGOs to limit environmental damage, provide local jobs, increase transparency, and enhance the chances of sustaining both profits and peace"* (Browne, 2010; Christiansen, 2002).

The second incident is related to the Angolan state-owned oil company Sonangol. In its attempt to fight corruption and to promote transparency, BP has agreed in a letter addressed to Global Witness to publicly disclose information on its total net production, on the aggregate payments to Sonangol, and on the taxes and levies paid to the Angolan government. The answer of the Angolan authorities was prompt: Sonangol sent a letter to BP, with copies to all international oil companies operating in Angola, threatening to terminate its license to operate if it engages in such disclosure (Browne, 2010; Oranje & Parham, 2009). The initiative then failed and most of oil companies disapproved once again BP's decision; however the incident provoked lots of frustration especially on BP's CEO, John Browne. He acknowledged that unilateral approach from one company is unlikely to succeed in promoting transparency and accountability in the sector. He then engaged into intensive lobbying, together with the financier and philanthropist George Soros, on the UK government to promote transparency. The result was the launch and implementation of the Extractive Industry Transparency Initiative (EITI) (Browne, 2010; Kråkenes, 2011; Oranje & Parham, 2009).

4.1.4. BP in Azerbaijan

Azerbaijan is one of the oldest petroleum producing countries in the world and since its independence in 1991 it has opened its oil industry to foreign oil companies, so they can help to develop the industry and not least the country including regional stability. Due to the government reforms the signing of a ground-breaking Production sharing Agreement (PSA) took place in September 1994. The agreement is mostly referred as *"The contract of the century"*. In Azerbaijan, BP SPU (Strategic Performance Unit) operates under a number of these agreements (PSAs) which, once signed by the parties, are ratified by the Parliament and thus become Azerbaijani laws. This makes it a contract of high value and stability. BP also operates under host government agreements (HGAs) signed with the government of Azerbaijan. BP is the biggest operator in the oil sector in Azerbaijan. It owns for instance 34.5 percent stakes in ACG offshore facilities. And it employs also approximately 1800 Azerbaijani citizens in its facilities in the country (Andrews, 2004).

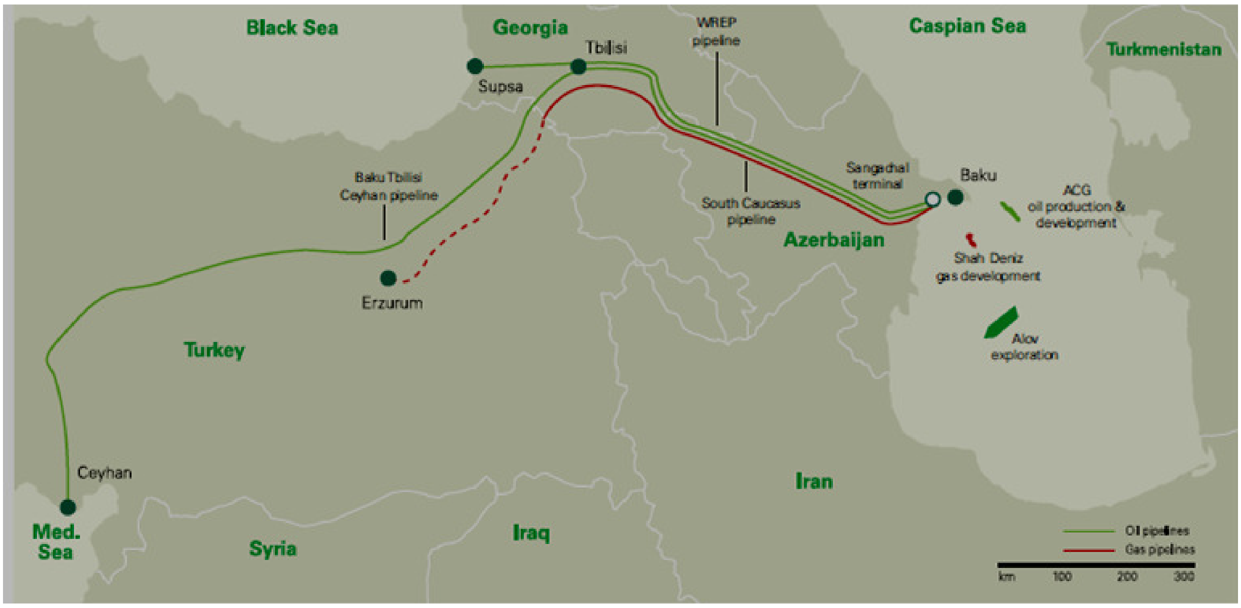


Figure 5: BP Azerbaijan SPU interests map (BP.Caspian, 2009)

Thus, thanks to the size of its operations, BP is by far the main foreign investor in Azerbaijan and the leading actor in the oil industry in the country. The company has invested about $28 billion on total expenditure in Azerbaijan since inception (BP.Caspian, 2011d). As a consequence, BP has gained a privileged position in Azerbaijan in the form of power and influence. Some critics compared the company with the American armed forces, as referring to foreign organizations which have a big say into their host country's internal affairs. Incidentally, the president of BP in Azerbaijan in 2005, David Woodward, was said to be among the top 5, if not the second, most powerful man after the president Aliyev in Baku (Economist, 2005a).

In consistency with its rhetoric, BP is also strongly implicated into different sustainable development initiatives as part of its societal and environmental strategies in Azerbaijan; it aims namely to contribute to strengthen the economy of its host country. As an illustration, in 2010, the company spent about $4.77 million only on sustainable development projects. It provides for instance, educational programs, skills- and capability building for the local communities, training and access to finance for local enterprises as well as technical assistance to public institutions (BP.Caspian, 2011c). BP has also been a leading member in different forums which aimed to promote good governance and capacity building such as the Business Development Alliance (BDA) and the Enterprise Centre since the beginning (Gulbrandsen & Moe, 2005). But more importantly, as being the biggest player in the oil sector in Azerbaijan, BP is also the leader of different consortia like the Azerbaijan International Operating Company (AIOC). In addition, BP has also created independent units: the Caspian Development Advisory Panel (CDAP) from 2003 to 2006 and the Azerbaijan Social Review Commission (ASRC) since 2007, to monitor and advise the company on their social performance and on their efforts to promote transparency, dialogue and engagement with the local authorities (BP.Caspian, 2011a, 2011e).

4.1.5. Description of the phenomenon

Reminding that the purpose of the present study is to shed light on BP's involvement with the Azeri government in economic capacity building, the following section describes the actions undertaken by BP in promoting transparency in Azerbaijan in a more detailed way.

The primary element of the phenomenon under study in this paper is the commitment of Azerbaijan to join the EITI. The EITI principles mainly work (illustrated in the figure under) as companies and host government agree to publicly disclose how much they pay/receive from each other; then an independent body – an audit company – verifies the accuracy of the sum and publicly discloses the report. A country starts by being an implementing country and is required to strengthen resource revenue transparency and meet four sign up indicators in order to become an EITI candidate country. A candidate country, on its turn, has to complete an EITI validation within two years in order to achieve compliant status. The EITI board may revoke the candidate status if no meaningful progress has been achieved on the EITI validation (EITI, 2009b).

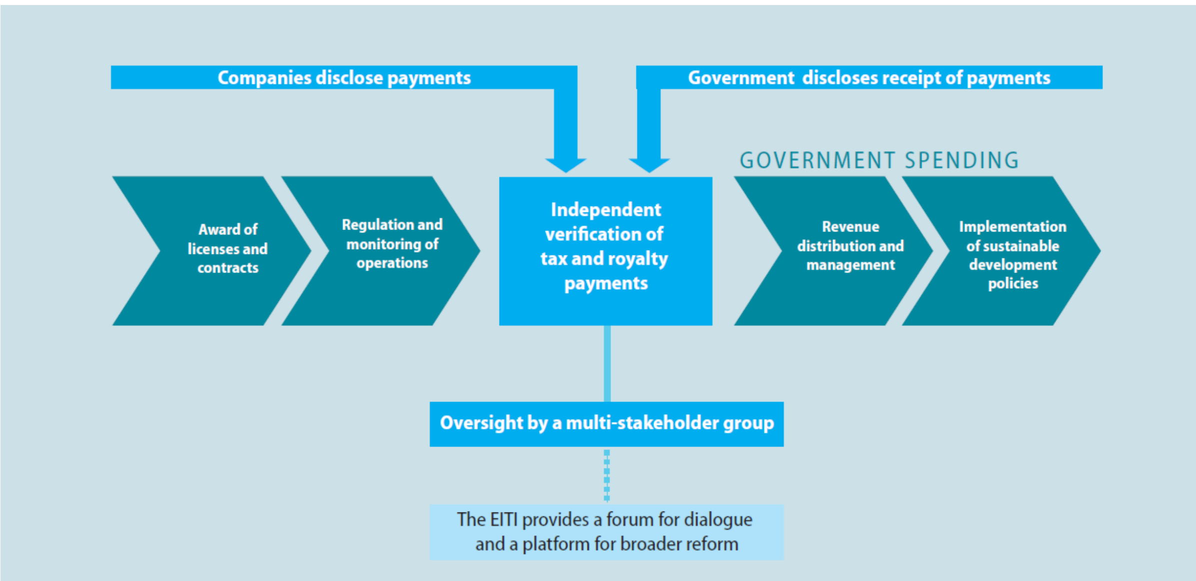


Figure 6: How the EITI works? (EITI, 2009c)

The term revenue transparency in the oil sector concerns the public disclosures of two types of payments: the bonus payments and the annual rental or royalty payments. (1) Bonus payments, also known as signature bonuses, are payments oil companies make to the host government at the moment of the contract signature, before the lease takes effect. They are up-front payments for the lessee to acquire the right to explore the resource propriety for a quite short duration of time (a few months or years). Seldom are signature bonuses publicly disclosed. (2) Royalty payments and annual rental payments refer to what is paid to the land owner (host government) as a share of the production income. The amount of the royalty payments is specified in the lease agreement and can be either a fixed sum per ton of minerals produced or a percentage of the production value. They are meant to keep the terms of the lease in force if the oil companies discover marketable quantity of oil and/or gas in the propriety (Geology.com, 2011). In addition, revenue transparency in the oil sector also includes the disclosure of taxes paid to the local government.

As shown in the timeline below, Azerbaijan was the first country to endorse and to implement the EITI. It results in the country being the 1st country to achieve the EITI validation in 2009 and to become the 1st compliant country. Although the commitment to support the implementation of the EITI in Azerbaijan concerns all oil companies operating in a country, the role played by BP has been of a particular importance in the case of Azerbaijan and therefore is worth, in our opinion, to be singled out and to be the subject of a deeper investigation. BP was indeed reported as having been strongly influencing and encouraging the Azerbaijan government to sign up to EITI (Aaronson & Brinkerhoff, 2009; Darby, 2006; Gulbrandsen & Moe, 2007).

4.1.5.1 The timeline of the events

Time	Events
Feb. 6th 2001	The incident with BP and Sonangol in Angola, followed by John Browne lobbying the UK government towards a collective action to promote transparency in the oil sector
April 2001	BP publicly disclosed bonus payments to Azerbaijan authorities for ACG and Shah Deniz
2002	Campaign and different academic writings to promote the EITI initiative The PSAs and host government agreements covering all the various projects where BP is involved were posted on the internet.
Oct 2002	Announce of the EITI by UK Prime Minister Tony Blair at World Summit in Johannesburg
Jan. 2003	BP established the CDAP to provide independent advice on its social, environmental and economic performances in the Caspian region
June 17th 2003	Launch of the initiative at the first EITI plenary conference Azerbaijan became the 1st country to endorse the EITI and it pledged to be a pilot country along with Nigeria and Trinidad & Tobago
2003	BP made a public statement to endorse the EITI principles and criteria
Nov 13th 2003	The EITI Committee established by ordinance of the Cabinet of Ministries of the Republic of Azerbaijan. Its role is to ensure that the government meets the commitment made upon joining the EITI
May 2004	Local civil society organized "The Coalition for Improving Transparency in Extractive Industry" (the Coalition) to influence the EITI Azerbaijan
Nov 24th 2004	Memorandum of Understanding signed between the EITI committee, oil companies and civil society. Agreement that government and oil companies to submit reports twice a year to an independent aggregator for audit and for public disclosure
2004	BP published its individual payments to the Azeri government
March 2005	1st publication of government EITI report. Azerbaijan reports are qualified as minimalistic and companies' payments are published as an aggregate figure
2007	BP established the ASRC: advisory group to promote transparency, dialogue and public engagement of its activities in Azerbaijan
Sept 2007	Azerbaijan reached the status of Candidate country
Feb 16th 2009	Azerbaijan being the 1st country to achieve EITI validation and became compliant country. (decision which must be revalidate within 5 years)
By 2010	Azerbaijan has published 14 EITI reports

(BP.Caspian, 2011g; Christiansen, 2002; Darby, 2006; EITI, 2009a; Oranje & Parham, 2009; SOFAZ, 2011b)

Figure 7: Timeline of the events

BP has always been involved in many attempt from oil companies to address wider societal issues in Azerbaijan (Gulbrandsen & Moe, 2005). BP has started showing example of transparency by publicly disclosing the Shah Deniz signature bonus already in September 1992. The company continues to regularly publish the PSAs and other documents detailing the payments made to the government of Azerbaijan. BP also held different meetings and forums with various stakeholders and set in place independent units such as the CDAP in 2003 and the ASCR in 2007 to monitor its social performance and to come up with advices for improvement. In addition, BP also allows local civil society to monitor its activities and to openly report what they have found through the Open Society Institute Association (EITI, 2007). If we refer to Sullivan's categorization, we can say that BP's partnership with the Azerbaijan government can be qualified as one of the shared work-plan type: both parts agreed to work on complementary tasks towards a common goal while the accountability and responsibility remain with each party separately (Sullivan & Warner, 2004). It can also be qualified as an alternative business and trade type of PPPs, in the meaning that it is a partnership that aims to promote the development of the social economy (Reed & Reed, 2006).

When it comes to reporting, BP also publishes an annual Sustainability Report where it states its operational, societal and environmental performances in Azerbaijan. In addition, the company holds regular press conferences and site-visits for journalists so that they could also report on their own BP's performances. With regard to revenue transparency, BP is one of the only two of 22 oil companies (the other being Statoil of Norway) which publicly disclose their individual payments to the Azerbaijan government. The other companies refuse such practices and persist in disclosing only the aggregate figure paid by all the companies to the local government arguing threats on the company's competitive advantage (BP.Caspian, 2011h; Gulbrandsen & Moe, 2007).

Moreover, BP contributes also to improve good governance in Azerbaijan by dispensing advice on domestic policies such as on poverty alleviation, revenue management or domestic energy strategies. Such contributions are done through sponsoring independent economic experts to engage with government representatives (Gulbrandsen & Moe, 2007).

4.2. Findings and discussions

4.2.1. The societal background and the morality and virtue of a MNC

According to Van Tulder and Kostwinder's framework, and more specifically on the first dimension of partnership process: the input of partnerships, it includes not only financial means and knowledge but also the goals and motivations of each partner. These latter are argued to be strongly influenced by the societal background and the morality or virtues of the partners. The willingness to cooperate lies in understanding the type of failure to address and that they are aware of that failure prior to entering the partnership, in this case governance failure (Van Tulder & Kostwinder, 2007).

4.2.1.1. What triggered it all

If we look back in time and try to find out what triggered it all and if it was voluntarily entering the partnership, there were campaigns going on back in 2002 and among them were NGO's like Global witness. According to Peter Eigen, founder of Transparency International and now chairman of the EITI, there were also academics writing books and articles like "the paradox of plenty" by Karl (Karl, 1997) and the 1999 Global witness report "A crude awakening" (Global.Witness, 1999) which brought the situation in Angola to the attention of the international community and caused the formation of a civil society alliance between Global Witness and Transparency International UK. Later, the alliance expanded and became the "Publish What You Pay" campaign. It called for action, mostly in Angola but also worldwide. It aimed to ensure that revenues from natural resource exploitation show up in the states' budgets and those governments could be held accountable, especially for their expenditure. The U.K. Prime Minister was solicited, and in September 2002 Tony Blair announced that he would be launching an initiative to promote the transparency of oil, gas, and mining revenues. This marked the birth of the EITI. A couple of countries were asked to implement the EITI program. The idea was to put together companies, civil society and governments to make the revenue more transparent. Both Azerbaijan and Nigeria accepted to pilot the program (Eigen, 2007; Kråkenes, 2011).

So it was all voluntarily and nobody was pressured into the program, and when BP entered a partnership with the host government of Azerbaijan it was because both parties could see the governance failure and the benefits of joining forces to overcome this failure.

4.2.1.2. Code of Conduct

As part of BP's morality and virtues they have a code of conduct written down in a document. The BP code of conduct sets their standards for everybody who works for BP. The code is obligatory, and every employee is expected to follow these rules or standards. It is written to encompass the core beliefs and values of BP. "*It enshrines their fundamental commitment to honesty and integrity, and desire to contribute to human progress and commitment to mutual advantage in every relationship of which they are part"* (BP, 2005). The code applies those regulations to the specific situations of a day-to-day business life, includes complying with the law and have high ethical standards wherever BP operates The code also describes what BP expects of its businesses and people no matter the location or background (BP, 2005).

BP has high morality and virtue in rhetoric and the underlying philosophy of the code is that there should be no gap between what they say and what they actually do. BP themselves claim that a great company must have universal standards of individual and collective behavior that are applied in every activity everywhere around the world. And as it is said in one article "*Great companies are built on trust*"; and " *If our company is to thrive and grow, we need the trust of our customers, investors, employees, the communities in which we work and, at a wider level, the societies of which we are part*" (BP, 2005; Christiansen, 2002).

4.2.1.3. Influence of John Browne

Also the influence of John Browne (CEO 1995 – 2007) has helped to shape the moral and virtues in the Company. He was also the man behind the merger with AMOCO in 1998 which suddenly made BP the third largest oil company in the world after Exxon and Shell (Christiansen, 2002). He is also a pro environmental person and that has helped the company to address issues like environment and global heating problems. Browne's life at BP spanned many changes in global energy politics, from the creation of OPEC, to the advent of resource nationalism, the opening of Russia and the rise of Chinese consumption. He transformed a small company into a global powerhouse (Browne, 2010).

4.2.1.4. Lessons learned from Colombia and Angola.

Those companies that are proactive have to balance their act carefully to avoid criticism by host and home audiences for intervening in affairs outside their legitimate sphere of influence. In fact, proactive companies may risk the host government terminating contracts over differences about macro CSR issues. This was nearly the case when Sonangol, the state-owned Angolan oil company, threatened to terminate BP's contract when the company announced in 2002 that it would publish its payments to the Angolan government (Oranje & Parham, 2009). There is a story that says that Lord Browne (CEO of BP) was on the flight from Angola – and quite frustrated about the situation there – when he called his friend Tony Blair (UK prime minister at that time) and said that the only way to deal with this is to have the companies to stand together and publish what they pay in taxes etc. Because the oil and mining companies actually pay a lot in taxes to the government, they want people to know about it (Kråkenes, 2011).

In Columbia, BP had people to protect their assets in the country which was in close relation to the militias and guerilla army of the country and where human rights are violated. The outside pressure was on them when the civil society's and NGO's found out that this was the case. Accused of dealing with murderous people who violate basic human rights, they had to get a third neutral party to protect their assets in the country. BP definitely learned from their mistakes and started working with non-governmental organizations, environmentalists and civil society groups and became a more locally engaged company in their involvement (Browne, 2010; Christiansen, 2002). So their mistakes helped BP shape their morality and virtues as a company to the better.

4.2.1.5. Conclusion

The understanding of any failure depends on the norms and values of each partner and the motivation to enter a partnership is strongly influenced by the societal background and morality and virtue of each partner. In this case both the company and the government understood and addressed the governance failure (which will be elaborated more under our findings in proposition two). And BP seems to follow the code of conduct document in many ways and tries to learn from earlier mistakes as in Columbia and Angola. John Browne the CEO of BP has also been a big influence in trying to better BP's operations in other countries worldwide by shaping their morality and thereby seeking to do the right thing wherever the BP logo was seen; complying with applicable legal requirements and with high ethical standards as highly valued virtues.

Our proposition that the societal background and the morality and virtue of a multinational determine its decision to engage into private-public partnership for capacity building is supported by the company's point of view. But we did not find enough evidence to affirm that it also stands from the Azerbaijan government's point view; at least not enough to explain the reality.

4.2.2. Expected value-added and contributions of the partnership

Generally, the main contribution of the EITI initiative is to enhance good governance and democracy through transparency. In fact, the latter promotes accountability and allows the local population to have a better control on the natural resources of their country. It is also expected that adherence to the EITI would bring changes on corrupted and other inadequate regimes' behaviors (Schumacher, 2003). The initiative is supposed to empower the citizens of the country to influence to some extent the decisions in the resources extraction policies (Aaronson & Brinkerhoff, 2009).

4.2.2.1. Azerbaijan's expectations

For the parties involved, engagement in such partnership represents above all a mean to acquire more credibility and better reputation (Sullivan & Warner, 2004). In the present case, both parties are aware of the governance failure occurring in Azerbaijan. For the local regime, corruption most of all, but also lack of transparency and unfavorable business regulatory environment, represent a hindrance to the country's ease of doing-business competitively. In addition, with its high level of corruption, coupled with lack of democracy, limited freedom of speech, low average GDP per person, long-lasting regime, and high percentage of young population, Azerbaijan has all the signs of countries that might be subject to unrest and revolution (Brakke et al., 2009; Economist, 2011; RWI, 2011). All this will mainly deterring potential investors away from the country and, at the bottom line, it is not good for the ruling regime's own interests.

For Azerbaijan then, the main expectation from the commitment to EITI seems to internationally improve the country's reputation and to attract investors. Interviews of the President Aliyev and investigation of the country's main direction on foreign policy have, indeed, shown that the government wishes to develop a strong economy which is not dependent on oil in the future when the country's oil reserves deplete. The regime also expresses its aim for economic integration with the EU and to become a member of the modern international community. It is therefore important for them to show that they are meeting the western standards, both in terms of produced goods and in legal framework and institutions (Mammadov, 2010; World.business, 2009). Increased transparency is indeed one of the criteria required from international financial institutions and large investors who want to enter a country that makes all this possible. Piloting the EITI seems to be a good strategy to convince the international community that Azerbaijan is moving away from corruption by starting by promoting more transparency in its oil revenue management. As an illustration, the decision to become a pilot country for EITI was taken during the period where the BTC pipeline was still under negotiation. Analysts say Azerbaijan wanted the project to succeed so the move about piloting EITI was intended to convince the world and the investors that the country is getting good, stable and transparent (Darby, 2006; Schumacher, 2003).

Furthermore, analysts says that President Aliyev requires international alliance, namely from the US, the EU and the NATO, to put pressure on Armenia to accept the principle of territorial integrity and thereby settle the conflict of Nagorno-Karabakh (NK). The NK conflict is certainly essential in the stability and in the perspective of an economic development of Azerbaijan as it has caused a massive displacement of the local population and represents a threat in the security of the land. These, in its turn, undermine the power and influence of the governing elites (Economist, 1992). In addition, Azerbaijan also wishes to preserve its role as an important actor both in the geopolitics of the Caspian and Caucasus regions and as a major oil supplier to the West (Jacobson, 1999; Mammadov, 2010). Through its commitment to the EITI, the country expects to gain increased credibility and support from the international community which is helpful in the achievement of its objectives (Darby, 2006).

4.2.2.2. BP's expectations

For investing companies, such as BP in Azerbaijan, doing business in such unstable areas represents a risk both in terms of safety and for the company's reputation. BP entered Azerbaijan with an enormous volume of investment and with the intention to operate in the country over a long-term period. Thus, one of the main concerns of the company is to make sure that their assets are secure and that they could continue to operate whatever the political situation in the country. For this reason, it is important for BP that its host country is as stable, transparent and democratic as possible and that it acquires enough acceptances not only from the current regime but also from other stakeholders, namely the opposition and the local community (social license to operate) (Knight, 2005). On top of that, BP is also fully aware that operations in countries where the legal order is insecure, where the government may not be democratically elected, where the cleanness of the authorities may be questionable, or where regulations may not be correctly enforced, can be fatal for the company's international reputation (Knight, 2005). It confirms Crowson's argument that companies mostly see in such partnership a means to protect their investments from the negative effects of weak governance and to prevent or minimize hostile actions by the local communities (Crowson, 2008). Hence, engagement in cooperation aiming to improve the local institutions is almost a necessity in order to avoid such traps. It is in BP's interest to support the local government in any initiative aiming to promote good governance in the country.

BP acknowledges that it needs to engage in certain societal issues like transparency, human rights, anti-corruption because they are closely related to the success of their business in the host country. In a discussion with deputy editor of the Economist magazine, Clive Crook, BP's vice president corporate responsibility Graham Baxter stated that BP expects long-term profitability by contributing to create a secure and positive operating environment in Azerbaijan (Knight, 2005). Former BP president in Azerbaijan, David Woodward talked about the need to reeducate the new government each time there is a government change in countries where BP operates (Economist, 2005a).

When it comes to social license to operate, BP expects that its engagement to contribute to capacity building in Azerbaijan would help to prevent the company from being associated with corrupt local regime or being accused of misappropriation of state revenues (BP.Amoco, 1999; BP.Caspian, 2003; Browne, 2002; Christiansen, 2002). It is in fact a big challenge for BP, while operating in countries considered as one of the world's most corrupt such as Azerbaijan, to make sure that the oil revenues it contributes to generate help to transform the country's economy rather than pay for another war with Armenia for instance (Economist, 2005a; IPIECA, 2006).

International pressures on oil companies operating in troubled petro-states are continuously increasing. There are more and more expectations that multinational corporations should pay attention to the distribution of the revenues they contribute to generate, to human rights issues, to anti-corruption initiatives and to any other unfortunate situations that may result from the company's activities in the host country (Christiansen, 2002). In addition, the companies themselves contribute to nurture such expectations by claiming to adopt SR rhetoric (Moe & Lunde, 2005). As caricatured in an article published about BP in Azerbaijan in The Economist that *"some in Baku… expected BP to import democracy along with its* *drilling kit"* (Economist, 2005a). Failing to fulfill those expectations and not addressing these issues can cost the company its reputation as BP has learned the hard way in Colombia.

4.2.2.3 Conclusion

Considering what each party are expecting from the partnership, we can conclude that the second proposed explanation is supported. The expected value-added and contributions of the cooperation exceed the disadvantages created by the current governance failure. It results into a willingness to collaborate from both parts. However, if BP's expectations can be assumed to be based on profit seeking and on a genuine wish to trigger changes (lesson learned from previous mistakes); there is no plain way to ascertain to what extent the Azerbaijan regime's commitment is motivated by a real concern about the country's political and economic development and not more by proper interests of the ruling elites. Moreover, the commitment to EITI concerns uniquely income revenues transparency; it does not question the spending of the revenues by the government. This represents a fortune for corrupt authoritarian regimes such as Azerbaijan: they get the opportunity to gain credibility and to improve their reputation by promoting transparency while continuing the misappropriation of the country's wealth with impunity (Economist, 2006; Wilson, 2010).

4.2.3. The stability and capability of the host Government

The degree of involvement of a MNC in a PPP aiming to contribute to capacity building depends upon the stability and capability of the host government. The limit of how far a corporation can intervene is also highly depending on the political situation and on the existing regime and institutions in the host country. And especially in the extractive industry there are a lot of MNC's operating in developing countries where the institutions are not always adequate.

4.2.3.1 The institutions in Azerbaijan

On a mezzo-institutional level, unstable governments, corrupt social institutions and oppressive elites are among the most pinpointed causes for the prevalence of poverty and inequality. In a report made by Al Jazeera correspondent Laurence Lee, it is stated that more than half of the people in Azerbaijan still lives below the poverty line and that people can't even afford to feed their own cows and sheep. With 250$ a month (average salary) and 17%

inflation that is pushing prices up means that life is made hard and difficult for the (Lee, 2008). The low purchasing power and massive inflation is also stated in a report done by Neave Barker for Al Jazeera and Russia Today (Barker, 2008). According to Transparency International's 2008 Corruption perceptions index, Azerbaijan is perceived to be one of the world's 25 most corrupt countries (Brakke, et al., 2009). The Azerbaijan authority though cannot yet claim any meritorious achievements in reducing the level of corruption in the country despite some efforts undertaken by the government, the local NGOs and foreign entities (TI.Azerbaijan, 2003).

Also violation of basic human rights such as disappearances, intimidation and restriction of the freedom of speech is currently used by authoritarian states and military regimes. They mostly resort to violent repressions in order to stop any form of protest from the population and to stay in power (Brakke, et al., 2009; McNitt, 1995; Ozkan, 2006). Azerbaijan put more journalists in prison than any other OSCE (Organization for Security and Co-operation in Europe) country in 2007. Many reporters had to appeal to foreign embassies for political asylum. Azerbaijani correspondents find it devastating that they cannot report on certain issues such as the president, his family or matters like corruption without facing intimidation (Brakke, et al., 2009).

In Azerbaijan the people are, in theory, granted by their constitutional rights the freedom of speech, the right to assembly, but the government has limited these rights. There are only a handful of independent newspapers in the country compared to those expressing the opinion of the authorities. The daily printings of newspapers are low and accounts for only 0.5 to 2 per cent of 2 million people in the capital city of Baku. This is due to the fact the population has little or no extra money to use. Because of that, the only main source of information remains the six television channels, five of which are either state-owned or owned by people close to the authorities and only one private channel which nonetheless prone the government's influence. In addition, the broadcast of foreign radio station programs has been banned as well (Brakke, et al., 2009).

And also concerning the freedom of speech, while covering the presidential election in 2008, Al Jazeera's correspondent Hamish Macdonald reported that chairs and benches have been removed from parks to prevent public gatherings and hearings that might threaten the power of president Aliyev (MacDonald, 2008a). In another report made by Matthew Collin for Al

Jazeera concerning the referendum in 2009, it is also mentioned that the freedom of speech in Azerbaijan has been restricted and that political protest is barely tolerated. The political opposition Ali Kerimli even says that the president wants to act like a king (Collin, 2009).

So the opposition thought about boycotting the presidential election in 2008 because of the authoritarian regime in Azerbaijan with which they are very angry. In an interview with President Ilham Aliyev made by Hans Friedman for World Business, Aliyev says that he is concerned with the non-energy export sector (World.business, 2009). The Future will tell us how concerned he is because, for example, the traditional flower industry trade north of Baku that was their best export before the oil boom has vanished by at least 70 percent. The government even failed to provide any heat - even if they are rich in oil resources - so the people ended up burning their own greenhouses to keep warm (Lee, 2008).

Another indicator of inadequate institutions is kleptocratic regimes which are stealing from their people. It is called resource and borrowing privileges where in the end the government uses the funds (revenues from oil industry) to reinforce their power while the population of the country is suffering. In the same report by Matthew Collin, it is mentioned that the poorest people of Azerbaijan do not benefit from the oil boom. It seems that the oil money only enriches the elite in the country and there is no gain for the rest of the population (Collin, 2009). Besides, the fact that a lot of people still live below the poverty line (Lee, 2008) suggest that the vast amount of money earned in oil revenues never reaches the population as such. So the stability and capability is not in any way near as it ideally could be, and therefore BP and other companies that decide to operate in these ”high risk” countries need policies that can encompass these new risks and incorporate principles that include boundaries and where to draw the line. And BP believes it should contribute to the stability and the economic probity in the country, as it does in other nations (Webb & Carstens, 2008).

4.2.3.2. Boundaries

In the first of six criteria of the NHO’s framework *Legitimate purpose of business operations* the company’s operations should not produce any negative consequences for any group of stakeholders (Bomann-Larsen et al., 2003) and that is in agreement with one of De George’s 7 principles. His first principle almost states the same namely that MNC’s should not do any intentional harm (De George, 1993). And as Warhurst suggests, the roles and responsibilities of business in society, in particular global businesses are being defined more broadly. Stakeholder demands are increasingly going beyond the obligation to ‘do no harm’ to the responsibility of being ‘a positive force’. The business is therefore expected to contribute more to worldwide social development goals. The society is also increasingly expecting global businesses to work in partnership with others to solve the numerous humanitarian crises and endemic problems facing the world—such as environmental damages, diseases (e.g. HIV/AIDs), poverty, climate change, and human rights violations (Warhurst, 2005). We would argue that BP is trying to go beyond the obligation to “do no harm” to being a positive force in the case of Azerbaijan. They are working in numerous partnerships to make sure that nobody is left behind and overseen.

They have formed good communication and partnership and worked hard to ensure that the local communities which are their nearest neighbors benefit from their presence. BP has invested a great deal of time and money into the communities like building schools and providing micro-financing. Moreover, they also want to give the communities the tools and know-how so they can be able to help themselves and improve their skills in a lot of areas. A transfer of skills and knowledge would indeed create jobs and upgrades the local workforce and the companies to another level (**BP**, 2009). They have developed a very good partnership with the government of the host country to make sure that everything is done in common interest. In a meeting with BP’s CEO Tony Hayward, President Aliyev also emphasizes the successful and longstanding cooperation between Azerbaijan and BP (President.az, 2010). They have also made third party auditions to monitor their behavior in the country from day one so that everything is done in an ethical and lawful way. All of this is exactly to make sure that they try not to do any intentional harm to the population or the country itself.

In the third criteria of NHO’s framework, *direct and indirect responsibility (double effect),* the companies shoud try and do more good than harm (Bomann-Larsen et al., 2003) and that is what DeGeorge also states in his second of seven principles which says that MNCs should produce more good than harm to the host country (De George, 1993).This criterion somewhat also suggests that whatever the business and whatever the industry, there will always be some harm done in the host country where they decide to work. In our case, with oil companies in the extractive industry, it could be the risk of an oil spill, pollution, ruining nature with new infrastructures – for example cutting down trees or clearing the vegetation in one area just to build a road etc. – They will need policies to manage the risks associated with their operations, and will likewise find themselves ‘accountable’ to a broadening set of interests including stakeholders, shareholders, governments, trade unions, employees, and NGOs—particularly those concerned with upholding human rights and environmental stewardship (Warhurst, 2005). So here the clue is to make more good and positive things to way up the risk and harm that could happen to the area in which the company operates. And those positive things could be some of those mentioned under criterion one.

In the fifth criteria of the NHO’s framework the company aims to promote transparency and reporting their goals (Bomann-Larsen et al., 2003). And the lack or low transparency is another factor that affects the operations of multinationals in countries with inadequate institutions (Zhao et al., 2003). It is stated in BP’s code of conduct that *“they seek to engage in open and transparent dialogue and consultation with communities and other representatives of civil society and international non-governmental organizations (NGOs) – who have a legitimate interest in their operations “* (BP, 2005). In BP’s view, the capacity of the host country government is crucial in achieving transparency, in reducing corruption and poverty and in attaining better governance. No company, however large it is, can achieve much by itself. But BP also recognizes that there are important, and indeed valuable, things that companies can do in this area by collaboration with other partners end entities (IPIECA, 2006).

Moreover, we can see that the partnership with the government has had positive effects because Azerbaijan is now ranked 9th out of 41 countries in the Revenue Watch Index, which measures disclosure and practices for oil and mining governance. This ranking indicates the country's substantial progress in transparency of oil revenues (RWI, 2011). Foreign investors will see a better and more trustworthy location where to invest. Potential foreign investors are more attracted by countries where transparency is on the uphill. It, indeed, often means that it is less risky to do business in and that foreign currency will flow into the country. Although transparency is only one out of many measures necessary to build an attractive location for investors, it certainly helps and have a positive effect on the investors’ decision to engage in activities in the country (Eigen, 2007).

In the sixth criteria of the NHO’s framework *Corporate Identity and Integrity* it is related to what the company stands for and that they can draw a line as to what kind of actions the company will do and not do (Bomann-Larsen et al., 2003). Companies would prefer to define boundaries as narrowly as possible, while civil society actors and those seeking rapid results would define them more broadly. Principles for negotiating this tension have yet to be agreed upon and they vary according to the context (Webb & Carstens, 2008).

The big oil companies are not trying to usurp the role of the government. They are also afraid to push across the boundaries of what is legitimate and thereby interfere with the public authorities. That could indeed lead to misunderstandings and even conflict between the parties (Wilson, 2010). Even though the oil companies are aware of that the oil revenues maybe benefits the leaders of Azerbaijan, as well as their allies, more than they have benefited the population at large, they also believe that it is out of their reach to tell the government what to do and how to spend oil revenues (Gulbrandsen & Moe, 2005). Yet, it is expected that the companies engage with public policy on a range of issues that is, at first sight, not connect to core of their business. It includes environmental protection, corruption, human rights and democracy (Wilson, 2010).

Examples of barriers of action that could be overcome without crossing the line of what a company could and will do include: a lack of possible partners or allies to lead initiatives, including the business community. To overcome this problem, the company could engage in partnership with a range of actors with complementary skills and expertise. As for the lack of knowledge within the company about government sustainable development policymaking, it could be overcome by engaging in communication with government officials where appropriate. And the lack of legitimacy that foreign companies and investors often suffer from can make it difficult for them to intervene without a clear commercial interest could be dealt with by involvement in multi-stakeholder initiatives such as EITI, which for sure can provide legitimacy to the companies (Wilson, 2010). And these above mentioned barriers have been overcome by BP in Azerbaijan with skill and good partnerships.

4.2.3.3 Conclusion

If boundaries are not well-defined, companies may find themselves in a situation where they are in conflict with a public authority, involved in work not easily justifiable to shareholders, or generating uncomfortable expectations by stakeholders (Webb & Carstens, 2008). For BP it seems more important to protect long-term investments in the country than the pressure to fill the gap of government failure. And because the stability and the capability of the host country are important for the MNC to protect their long-term investment of approximately 40 years, we believe that is the reason why BP is very interested in helping the host government to be more stable. Furthermore, BP wants to avoid crossing the boundaries they are aware of, like the host country's internal affairs and what they spend their money from oil revenues for. The boundaries issue is extraordinarily complex, however, and there will never be a framework that encompasses all the relevant variables (Webb & Carstens, 2008). So our proposition three is only partly supported. But protection of their investment seems to be the main driver for oil companies to wish stability in the host country.

4.2.4. Collaboration within the industry

4.2.4.1. Bargaining power

BP has not always been the biggest foreign oil company in Azerbaijan. In fact, prior to the merger with Amoco in 1998, BP struggled to get things done in Azerbaijan, as recalled by its former CEO John Browne in his memoir (Browne, 2010). BP and Amoco were in fact the largest owners in the consortium. Their merger provided BP Plc the opportunity to become the clear leader of the oil consortium AIOC. Just for comparison, BP's turnover in 2004 represents thirty times the size of Azerbaijan's GDP (Economist, 2005a). From the merger on, BP just increased its influence and leadership within the consortium and in most part of the country. Almost every forum and other actions aiming to promote sustainable development in Azerbaijan since then seem to be labeled as "initiated by BP" (e.g: (Devex, 2010; EITI, 2007; Gulbrandsen & Moe, 2007). The case of BP in Azerbaijan seems to support the argument that strategic alliance help multinationals to avoid or at least delay the obsolescing of their bargaining power. Moreover, foreign oil companies in Azerbaijan are gathered together into a consortium and Azerbaijan is, apart from that, very eager to gain international credibility as stated earlier; all these make it even more unlikely that the host government would have any intention of opportunistic behaviors against the international multinationals in the country.

Furthermore, investigations of the involvement of BP in Azerbaijan show that the company is mostly exerting its obvious influence and significant bargaining power on the local government through partnership. In fact, in Luo's coopetition matrix, BP seems to be a Partner-MNC. Both parties seem to have understood that they are dependent one to the other: the host government "owns" the resources while BP possesses the necessary expertise to exploit them. Thus, the degree of competition between them is rather low while both seem to be committed to each other to work in partnership. It can refer to mutual assimilation of each other's goals, and to a cooptation response from BP's side. BP also increases its legitimacy and credibility mostly through proactive actions that enhance its social license to operate among the key stakeholders in the local community; it can be reworded as accommodation in terms of political response. Moreover, BP people seem to get along very well with the local authorities, at such a point that its CEO has often been criticized of being too comfortable at the side of "less democratically-minded leaders", among them is Aliyev (Brower, 2010). It can however be translated as an adaptation response, as the company forces to insert personal dimension into their relationship with the host government.

4.2.4.2. The sector dynamic

The main finding related to the oil industry in Azerbaijan is truly the little collaboration between the international oil companies in terms of Social Responsibility actions (Gulbrandsen & Moe, 2005). Despite the fact that they are all facing the same international pressure to act responsibly given their operations in deeply corrupted country like Azerbaijan, each company in the AIOC seems to have a different understanding of their responsibility vis-à-vis the sudden increase they contribute to generate into the local government's income. Some, mostly American companies, are less keen than others, mainly the European ones, to interfere into their host country's revenue management. To illustrate this, while a BP officer stated that their company wants to help the local government to avoid the resource curse, an Exxon officer preferred not to call the issue "oil curse" at all but rather "governance curse" in which they, as private investors, have nothing to do with (Economist, 2005b).

In Azerbaijan, all of the 26 oil and gas companies operating in the country have agreed to abide to the EITI and agreed on the disclosure of the aggregate payment to the host government but only two of them, as stated earlier, have agreed to publish their individual payments. Several reasons have been presented as motivating such behavior: (1) Competition between oil companies to get the most lucrative contract with the local government: they argue that the publication of the individual payments would undermine their competitive advantages. (2) Wish to keep the status quo in the capacity of the local government because it can be more lucrative for their business to operate in countries with low standards. (3) Collective action problem: fear for being driven out of the country if they interfere in the government's affairs. (4) Inability to come to an agreement about a common project to implement; also about who will get credit from a collective action. (5) Conditional morality: it seems that the least ambitious company, in terms of SR initiatives, drives down the collective willingness to address governance failure issues to the minimum (Gulbrandsen & Moe, 2005, 2007; Moe & Lunde, 2005; RWI, 2011; Schumacher, 2003).

4.2.4.3. Conclusion

Our last proposed explanation is that implementation of such public-private partnership addressing governance failure is more likely to succeed if there is a strong support from the other companies in the industry. Obviously, in the case of BP in Azerbaijan, this proposition is not supported: it seems that BP's high bargaining power coupled with a persuasive influence acted more as stronger drivers in its action than the support from the industry. In fact, thanks to its position as the biggest player in the Azerbaijan oil sector, BP enjoyed better credibility to influence the local regime than it was the case in Angola for instance. Further, BP's avail as a privileged partner-MNC also made it possible for the company to take the lead in addressing local governance issues with less fear of the local authorities.

4.2.5. Discussions

4.2.5.1. Implications for management

Managers in MNCs that are situated in countries with inadequate institutions can expect to face more pressure and critics than normal.

It takes strong morality and virtues of a company even to take the decision to go and do business in a country that is known for its inadequacy in areas such as social institutions, basic human rights and so on. They need committed people to lead the way and to truly believe that what they are doing is right. They can thus move forward in every way using skill, good ethics and good spirits, trying to connect people at every level of the hierarchy and making partnerships with civil societies, NGO's, host government and the local communities. They need to do so wherever it is needed and where everybody can gain something for the masses instead of gaining just a little for themselves. Partnerships are good to increase legitimacy and decrease the potential for conflicts of interest, but they do not eliminate these problems. Good coordination is also needed between all the actors involved. Also, it is important to ensure a clear understanding of institutional capacity building goals, each actor's responsibilities, and maybe a timeline for progress. The people in charge could outline these points in a 'memorandum of understanding' to help protect the interests of all involved (Webb & Carstens, 2008).

In our case we found out that the cooperation with the local government and the civil societies could be much better than it is at present and the cooperation within the oil companies would eventually benefit all. Furthermore, the focus needs to shift from short sighted to long-term issues and the managers and CEOs have to think that "what is good for the host country is also good for their business".

There is also the new area of creating shared value (CSV). The approach of CSV requires a new way of thinking among company leaders and managers: to shift their focus from narrow financial performances and quick profits to broader mutual benefits shared with society that is for the long run. Companies, indeed, could create economic value for themselves as well as for the society if their leaders and managers are willing to be in the frontline and show new ways with their innovation skills to get business and society back together. In order to achieve that, however, the management has to move their skills and resources to the highest level and in the process, companies and businesses can earn back the respect and legitimacy of society which they seem to have lost along the way, on that long lonesome highway of quick profits.

It is not easy to make this puzzle and it takes a long time, patience and a good deal of frustration on the way as well, and maybe even all the bricks could fall onto the floor so you have to start all over again before the last brick is put to place.

The right ingredients of this recipe is not universal, because we all like different flavors and tastes so one has to try different combinations to make the right dish to serve what most of the people would like. But new ideas and new partnerships could in the end be a very important factor in enriching everybody concerned and the majority would like the outcome even if it has a new taste and even if it is done in a new way that was not seen before.

4.2.5.2. On the benefits of engaging in partnerships

One of the main findings of this study is the importance of the understanding of the benefits from engaging in partnership aiming to capacity building, both for the multinational and for the host government. The case presented in this study highlights a successful collaboration; at least in terms of engagement and commitment from both parts. This is, however, rather an uncommon occurrence: there are very few public-private partnerships that are focusing on solving governance issues in countries with weak institutions by the time this study was conducted. The reasons are: first, from the companies' side, despite increasing acknowledgement of the need to address broader societal issues, only few international companies are actually committing themselves to such initiatives for the time being. It is mainly because of either different interpretations of social responsibility of the companies or fear for reprisals by interfering into internal affairs of the host countries. Second, from the host government' side, it is mostly because of the greed of the ruling regime. Usually, repressive and/or inadequate governments are not willing to promote democracy as they are rather concerned about maintaining their control over the population.

The goal was that by improving local institutions in countries worldwide, one would contribute drastically to end poverty and socio-economic inequality. This, in turn, would promote flourishing and would stop unrests and people fleeing from their home countries. Partnerships such as the one described in this study are promoted by international organizations as one solution to reach this goal. It is therefore important to provide incentives to all entities about the benefits they could get by engaging in such collaboration. Maybe rather than focusing on criticizing the business and the LDC governments, campaigning to popularize the benefits from adequate institutions would bring better fruits. We mean that different measurement indexes like the freedom, the corruption indexes and so on are good to map the situation; but beyond pinpointing the problems, it is perhaps more important to make the objectives more widely popular and to create motivations to change among the main actors. The finding about the importance of the expected contributions of a public-private partnership implies that actions concentrating on the benefits may indeed provide better results.

4.2.5.3. On the capability and stability of the host country

Countries with repressive or human rights violating regimes are often associated with weak civil society and undermined opposition. Moreover, most of the time, the population lacks sufficient knowledge about their rights and about the recourse at their disposal to stand against the oppressive ruling regime. One essential means to overcome this situation is to strengthen the local civil society in such countries. Initiatives aiming to provide the local community enough credibility and capability are reasonably feasible and should be promoted by multinationals. In fact, with such aptitude, the civil society would be able to engage in discussions with the local government on an equal partnership basis. It would give them a say in the governance of their country and eventually would contribute to lead the country into a democratic path.

BP has been conducting various initiatives to help strengthen the civil society in Azerbaijan besides endorsing the EITI. Most of these initiatives were however still related to the goal to promote transparency. The company held information sessions for the civil society about, for instance, how the PSAs work. Such an initiative aims to enhance the civil society's knowledge about the oil exploitation in the country and concerning the oil revenue management so that they would become an insightful partner in the EITI initiative (Brakke, et al., 2009).

BP's move with the civil society in Azerbaijan represents an indirect way to address the issue of revenue transparency in the country. The initiative can be considered as a micro-CSR initiatives - benign and uncontroversial CSR initiatives aiming to improve the company's reputation and the relationships with the immediate local community (Gulbrandsen & Moe, 2007) - as it targets different local organizations. The impact is however on the wider societal level. Gathered into a coalition, those different organizations are more likely to influence the government's decisions. Actions like this can be undertaken by any multinational without exposing itself to high political risks and should be promoted. It is, otherwise, essential to include the civil society into dialogues and partnerships with the government and the business when aiming at capacity building. Multinationals can play an important role in promoting such involvement.

4.2.5.4. On the collaboration inside the industry

Next, the investigators were mostly interested by the finding related to the fourth proposed explanation. In fact, it seems reasonable, at first sight, to assume the importance of the collaboration between oil companies when it comes to engagement in initiatives that stir into the local government's affairs. The reasons for this have been elaborated earlier. It was therefore rather surprising that the bargaining power and the morality and virtue of the multinational are stronger drivers in such a commitment than the supports from the industry.

However, not all multinationals operating in countries with questionable institutions are endowed with high bargaining power coupled with strong ethical engagement like BP in Azerbaijan; it is rather the opposite. The challenge is thus to incite all types of MNCs to adhere to wider societal SR initiatives no matter their positions in the game. We mean therefore that a collective movement of the companies in one industry can overcome this problem. Our suggestion refers to an action which is more on a macro-institutional level rather than among companies operating in one country. The idea is that in addition to adhering to different ethical codexes and voluntary principles, multinationals in each industry, with the support of the governments behind them, would be likely to make a greater impact by getting together to set common standards while operating in countries with inadequate institutions. Such a requirement could, for instance, include the minimum accepted capability of the host country a MNC can enter. The objective is to shift the bargaining power to the companies' side so that together, they could put a pressure on the inadequate local governments to behave more ethically. But then again, such an initiative would require wider awareness to wake up among the multinational corporations; hence, the principle of Creating Shared Value (CSV) is again very relevant here. Therefore studies like the present one is crucial: to create a change of mind among international managers in the long run.

V- CONCLUDING REMARKS

The present study sheds light on an initiative, considered as a best practice in the industry, by a multinational corporation in addressing wider societal issues in collaboration with the local authorities in the countries they are operating. It concerns the involvement of BP in promoting revenue transparency in Azerbaijan. Our intention was to investigate the circumstances which made it possible for BP to become an important partner of the local government in capacity building initiative in Azerbaijan. The case is examined from the point of view of the relationship between multinationals and home country's government theories.

This study resulted in four main findings. First, high morality and virtue as well as the societal background of the multinationals have strong influences on its decision to engage into a partnership with the host country government in capacity building initiatives. One illustration of this is perhaps the difference between mostly European and American oil companies in terms of their CSR engagements (Gulbrandsen & Moe, 2005). The second finding argues that what each party expects as contributions of the partnership should exceed the perceived disagreements caused by the governance failure in order to trigger a commitment from them to engage in PPP. The third finding stresses that concerns about the safety and security of their investments rather than pressure to step in where the local institutions fail, are stronger driver for multinationals to engage in capacity building partnership with host government. And last, high bargaining power paired with a strong influence is a more determinant driver for involvement in PPP than collaboration within the industry.

As stated earlier, the present study is mostly based on multinationals and host country's government theories. It represents a limitation concerning the extension of our findings. In fact, the circumstances which facilitated BP's partnership with the Azeri government surely include many different facets; the multinationals-host government point of view is only one side of it. There are thus many other different vantage points how the phenomenon could be investigated; one could namely also look at it from perspectives involving the local civil society and NGOs, the international community, the owners and shareholders of the MNC, its home government foreign policies and so on or from a cultural angle. Moreover, the context also differs from a setting to another (Newell & Frynas, 2007); each country has its own particularity which may require specific circumstantial perspectives. To take these different perspectives into consideration is however beyond the scope of this study. We are therefore suggesting that they would be contemplated as subjects for further researches. It concerns namely tripartite types of partnership which involves the multinational, the host government and the civil society.

Next, the case presented in this study is considered as a benchmark in the oil industry. This evaluation is primarily based on the fact that BP's involvement with the local government in Azerbaijan is such a groundbreaking initiative among oil companies. In other words, it is a best practice case, mainly because of its pioneering aspect rather than because of its success in bringing tangible results in the fight against corruption or in improving the life of the local population for instance. So far, to our knowledge, and despite all reports and public announcements by BP, by the Azerbaijan authorities, and by other more or less independent observers and critics, no concrete study has been made on measuring concretely the impacts of the collaboration between the two entities nor whether it was really successful or not. We therefore think that this could also be a field for a further investigation.

Related to the issue of success of the partnership as stated above, we have mentioned the fact that the EITI is only concerned about the income side of revenue transparency and not the spending of the local government. This is, in fact, the main critique of the initiative. An illustration of this is given by Al Jazeera's reporter Hamish MacDonald in a report in Baku where he pinpointed the government's spending on transport infrastructure. The payments were far too high compared to international standards and they are made to companies suspected to belong to government officers (MacDonald, 2008b). As a consequence, the oil revenues are kept away from the Azeri population to rather end up in the pockets of handful rich persons in the regime. The accountability of the government on its spending of the oil revenue is a vital factor in the success of an initiative to enhance transparency. In addition, the fact that the choice to adhere to EITI remains a voluntary act by the actors involved also reduces its effectiveness in the goal of eradicating poverty and inequality. We consider that researches to find solutions to those issues should also be promoted.

To close up, this study was meant to contribute in the discussion about the role of international business in this new millennium. The authors hope that it has brought insightful participation in the debate aiming to promote a more responsible business. Otherwise, on a personal level, we appreciated the opportunity, provided by the writing of this thesis, to improve our analytical skills and to acquire new knowledge.

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APPENDIX A: TRANSCRIPT OF PHONE INTERVIEW WITH ANDERS TUNOLD KRÅKENES – COMMUNICATION MANAGER EITI SECRETARIAT OSLO: 04.04.2011

- **How come that Azerbaijan became a pilot country for EITI implementation?**

  Before the launching of the EITI initiative in 2002 by British PM Tony Blair, there were campaigning going by NGOs like Global Witness and academic writing such as “paradox of plenty” by Karl and “A crude awakening” to promote the initiative and to ask whether there is any country willing to pilot the initiative.

  At that time there was no concept of validation or any of the like, the idea of the British government was to put together companies, civil society and governments towards an initiative to make extractive industry revenue more transparent.

  Azerbaijan and Nigeria accepted to be the pilots.

- **Whose decision is it to join the EITI (in the case of Azerbaijan)? The president? The parliament? The government?**

  It’s better you take contact with Samuel Bartlett, Responsible implementation in Asia and validation, he knows probably better about this.

- **What are the main challenges when a country decides to commit to EITI (both generally and in the case of Azerbaijan)?**

  It differs from country to country but depends mostly on the political will, legal framework. Every country has its own rules and specific history. And some have legal problems that make it difficult to operate freely for partnerships between civil society, governments and multinationals. That can be an obstacle when you want to start publishing EITI validation, rules and guide documents and requirements. So it depends a lot on legal framework and political will. The first prerequisite is that you need a committed person, someone who believes that this idea is truly great and pushes forward with the idea.

  Azerbaijan’s reports are very minimalistic. Azerbaijan does not publish all data but they are timely and accurate. They complied to publish the data and they do so regularly twice a year. But their data however don’t contain much. Whereas Nigeria for instance is total opposite. They publish a lot of data but way too late.

It's OK with EITI though: they are flexible and respect the differences between countries.

- **Why do governments which are not necessarily democratic / are corrupted willing to commit to EITI? Despite that that may be against their interests?**
  Suggested to call the national coordinator of EITI Azerbaijan for more details about this (ask in a more subtle manner).

  Most of the EITI countries are not very democratic countries. There are not so many well-off countries. My opinion is that they wanted to show to the world that they are doing at least on thing good, in order to attract foreign investors. They want to increase trust on the country. Good image, PR and also for the good of the country as well (implying that the regimes are getting more long-term oriented).

- **What are the benefits for the companies?**
  Also increase trust, show that there are no money hidden away. Before most of these contracts were secrets. Companies want to show to the local population that they are paying their tax (and indirectly paying for their schools, healthcare, roads …), reduce the risk of corruption (they don't like to be forced to pay more to government officers).

- **Benefits for Government**? To have leaders who really believe in long term orientation. Countries get better interest rate if they do the EITI which means more money available which again is good motivation.

- **Any comments about the majority of companies in Azerbaijan which don't want to publish the details of their payment? Does that affect the initiative?**
  Well, that's one of the reasons why the reports from Azerbaijan are so thin. But actually, the report sent to the independent check is detailed; it's only the published part that is aggregated.

  That's the reason why companies prefer EITI as in opposition to the Dodd-Frank bill for instance (how much stock exchange companies pay on taxes?)

- **Anything more you wanted to add?**

  Wanted to know more about your thesis, so we gave a summary of our work, what is it about and what we would like to find out from it.

  Then he suggested we should also check out the CSV (Creating Shared Value)

- **What was the role of BP in the EITI initiative in Azerbaijan?**

  You should read John Browne's (BP's ex-CEO) book "Beyond business" as well, it may be helpful. John Browne was actually one of the very reasons why EITI started. The legend said he was on the flight from Angola, quite frustrated by the situation over there and called his friend Tony Blair: the only way to deal with it is to have the companies to publish together what they pay

  Companies are too dependent on the governments; they pay a lot in taxes and want people to know it; companies, especially mining and oil companies) are increasingly aware of the need for good governance (they have learnt to deal with countries such as Saudi Arabia).

APPENDIX B: CASE STUDY PROTOCOL

A. Overview of the project

1. background info:
   - The study is written as a master thesis for a Master degree in Business Administration, majoring International Management and Strategy.
   - By two students: Kurt Holm Pedersen & Liva Nirina Maric
2. Deadline presentation of phenomenon box: January 11th
3. issue to be investigated: case study of BP in Azerbaijan
   - Topic: multinational corporations as change-agents and contribute to address governance failures in a country with inadequate institutions.
   - Research question: What are the prerequisites to implement a successful public-private collaboration that aims to promote capacity building?
4. Relevant readings to base the study upon:
   - Frynas 2009,
   - Gullbrandsen & Moe 2007 & 2005
   - Falkenberg's articles and lectures on inadequate institutions
   - Warhurst 2005
   - Webb & Carstens 2008
   - Kolk et al 2006, 2008, 2010
   - ISO 26000: Social responsibility
   - CSV
5. Propositions:
   - Societal background, morality & virtue of the MNC as a major driver to enter PPP
   - Expected value-added & contribution of the PPP > disadvantages caused by governance failure: incentive to PPP
   - Stability & capability of the host government: determinant to company's choice to enter PPP
   - Support from the industry: driver to enter PPP
6. Deadline presentation of theory box: January 28th

B. Data collection procedures

1. Data collection plan:
   - Identify relevant person should be interviewed: in BP Azerbaijan, EITI, SOCAR, Azeri gov, IPAN, PKF, Coffey International Development
   - Take contact, send introduction letter
   - Interview questions:

     . Background of the partnership in general: what triggered the need for partnership?

     . From which entity did the initiative started? Whose idea?

     . What happened that made the entities come together?

     . Motivations to enter the partnership? (BP, SOCAR/Azeri gov.)

     . Roles, objectives and expectations in the partnership? (BP, SOCAR/Azeri gov.)

     . The cooperation inside oil sector in Azerbaijan? Supports from other oil companies? (BP)

     . The main challenges to get the parties together (IPAN, PKF, Coffey International Development)

2. Sources (documentation & media accounts):
   - Main places where to start search: The economist, the New York Times, Time, SOFAZ, EITI, Bloomberg/Businessweek, Al Jazeera, Azerbaijan International, Azernews, BP and BP Caspian, Wall Street Journal, T.I, Revenue Watch International, Global Witness, World Bank, OECD, BPD natural resources, Statoil, Exxon Mobil, Lukoil… this list is NOT exhaustive!!...
   - Books: memoirs of J. Browne; history of BP…
   - The library's database: Science Direct, Econlit, Academic & Business Search Complete, also Google scholars
   - Be critical about the sources: watch out for hidden agenda of the authors and so on…
3. Search keywords:
   - Proposition 1: BP & CSR initiatives, BP & transparency, BP & code of conduct…
   - Proposition 2: benefits EITI, company, government; motivations Azerbaijan & BP…

- Proposition 3: Azerbaijan, freedom, corruption, human rights…
- Proposition 4: oil industry Azerbaijan, collective action oil industry, CSR oil companies Azerbaijan…

4. Deadline: start march 1st – end: april 24th

C. Data analysis

1. Data storage:
   - create shared file called "thesis" in Google document; upload all collected data (articles) there
   - send to each other relevant links for evidences that are not downloadable, create files and sub-files in favorites (on your internet browser) in order to access them more easily later
   - upload internal and external data into NVIVO9
   - remember to make a back-up copy of your NVIVO database
2. Codifications
   - Read through articles, interview transcripts, watch videos and reports and codify each relevant part into the following categories

     Main categories: morality & virtues of BP; Azerbaijan motivations; BP motivations; description of Azerbaijan (stability & capability); value-added and contributions of the partnership; collaboration between oil companies in Azerbaijan.
   - **Other relevant categories**: Azerbaijan and BP engagements (actions they have done); reasons not to enter a partnership; how did it all started; timeline of the events; the oil industry in Azerbaijan, limitation to collective action, oil revenue in Azerbaijan, revenue transparency in Azerbaijan, BP in Azerbaijan, Aliyev's intentions and objectives, other CSR by BP in Azerbaijan…
3. Interpretation:
   - Analyze each category: read through each node, find out common patterns
   - Analyze between categories: link categories between them to find out if there are correlation / cause-effect… between the different variables
   - Do the evidences confirm the propositions?
   - Is there any evidence that contradict the main patterns? What do they say?
   - Which conclusions have you found?
   - Meeting to compare findings: april 25th

4. Deadlines: start: march 1st – end: april 24th

D. Reporting

1. Import citations in Endnotes as you find articles, documents etc…
2. Cite while you write to avoid all the mess with references at the end ☺
3. Start writing as early as possible.
4. Outlines & Deadlines:
   - Phenomenon box finished: January 30th

     Present what? Why? And how?
   - Theory box done by: march 1st

     Theories explaining the context + theories as basis for the propositions
   - presentation final draft: april 29th 2011
   - Methodology done by: april 30th

     Triangulation method, description of data collection, data analysis and challenge/ validity/ reliability
   - Findings and discussions by: 10th mai

     Present findings for each proposition and then discuss them + concluding remarks
   - Final Draft send to proof-reading: 15th mai