

**The Establishment, Operation and Subsequent  
Closure of the Bougainville Copper Mine:  
A Case Study in International Management.**

by  
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Submitted in fulfilment of the requirements  
for the degree of Doctor of Philosophy

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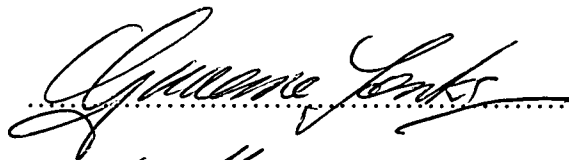
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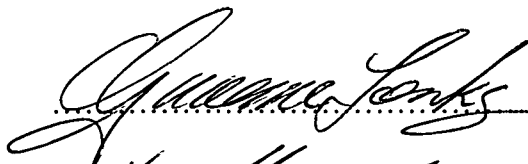
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## **Abstract**

As the scope and importance of the global economy expands, the international business arena presents continuous challenges in the governance of multinational enterprises (MNEs). Chief among these challenges is the management of the turbulent milieu in which world commerce is conducted and, as a result, academic inquiry into the environmental dimensions of international management has increased. The focus of this academic attention however, has been primarily concerned with MNEs from developed countries (DCs) which establish operations in other industrialised economies. In relative terms, there has been insufficient research into DC based organisations involved in less developed countries (LDCs). This dearth of inquiry is particularly evident in the rapidly expanding island economies of the South-west Pacific.

Accordingly, the aim of this thesis is to extend current understanding of international management in the volatile and diverse context of LDCs. To this end, the management of Bougainville Copper Limited (BCL), an Australian mining company which operated in Papua New Guinea's North Solomons Province, was investigated. Using a single case study approach, inductive and deductive processes were applied in order to comprehend the reality of BCL's complex relationship with its host country and host society. Extant literature formed the conceptual framework of the study, from which the central and subordinate research questions were framed. Primary data were gathered from interviews with past executives of BCL, with secondary material assembled from company documents, published histories, news articles, PNG and Australian government reports and prior studies of Bougainville. A broad verification process was instituted to ensure the rigour of the data and the interpretive process which followed.

The research findings support claims in the literature that corporate performance is dependent upon the close alignment of elements within the internal and external environments of MNEs. However, it was determined that alignment becomes increasingly difficult as the business climate in the host setting deviates from that in the home country, and MNE activities cannot be sustained under extremely divergent home-host conditions despite management's efforts to control external and organisation-specific variables. It was further established that MNE management should focus environmental congruency on the host society, rather than on the host country as suggested in the literature. Evidence from the research reveals that the immediate population is the most influential



contextual factor for MNEs, particularly in LDCs of the South-west Pacific which are typified by ethnic identity and local attachments which take precedence over the abstract notion of nationhood.

The outcomes of this thesis present a range of implications concerning the management of MNEs in LDCs in terms of policy development, management practice and theory development, as well as suggesting possibilities for further research in the subject field.

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## Glossary of Terms

ABC	Australian Broadcasting Corporation
AGA	Applied Geology Associates Limited
APEC	Asia Pacific Economic Cooperation
A\$	Australian Dollar
£	Australian Pound (Australia's currency prior to February 1966)
BAS	Business Advisory Service
BCF	Bougainville Copper Foundation
BCL	Bougainville Copper Limited
BCP	Bougainville Copper Proprietary Limited
BDC	Bougainville Development Corporation
BHP	Broken Hill Proprietary Limited
BLF	Buka Liberation Front
BMWU	Bougainville Mining Workers' Union
BRA	Bougainville Revolutionary Army
BSPC	Bougainville Special Political Committee
CLR	Commonwealth Law Reports
CPC	Constitutional Planning Committee
CRA	Conzinc-Riotinto of Australia
CRAE	Conzinc-Riotinto (Australia) Exploration Proprietary Limited
CZC	The Consolidated Zinc Company of London
DC	Developed Country
dwt	Pennyweight (English system of weights for gold, silver and gems.)
EEO	Equal Employment Opportunity
EU	European Union
FCPA	Foreign Corrupt Practices Act (U.S.)
GATT	General Agreement on Tariffs and Trade
GM	General Motors
GNP	Gross National Product
HMNZS	Her Majesty's New Zealand Ship
IHRM	International human resource management
K	PNG Kina (Currency)
LDC	Less Developed Country
MAP	Melanesian Alliance Party

MNC	Multinational Corporation
MNE	Multinational Enterprise
MST	Multinational Supervisory Team
MW	Megawatt (Measure of power.)
NAFTA	North American Free Trade Agreement
NIC	Newly Industrialised Country
NSP	North Solomons Province
NZ	New Zealand
OBE	Officer of the Order of the British Empire
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PET	Population Ecology Theory
PLA	Panguna Landowners' Association
PM	Prime Minister
PMA	Panguna Mungkas Association
PNG	Papua New Guinea
PQLI	Physical Quality of Life Indicator
PNGDF	Papua New Guinea Defence Force
RMTLF	Road Mine Tailings Lease Trust Fund
UDI	Unilateral Declaration of Independence
UPNG	University of Papua New Guinea
UN	United Nations
US/USA	United States of America
US\$	United States Dollar
VRO	Village Relations Office
VRP	Village Relations Program
WDS	W D Scott & Company Proprietary Limited
WTO	World Trade Organisation
WWI	World War One
WWII	World War Two



## Notes

When referring to the people of, or matters concerning, Bougainville, authorities use alternative spellings: 'Bougainvillean' and 'Bougainvillian'. This thesis employs the former, except in the use of direct quotations. The decision was arbitrary in the interests consistency.

As noted in Chapter 4, the Bougainville group includes numerous islands, many of which are small reefs and atolls. In this thesis, the term 'Bougainville' or 'the island' refers to the major island on which the Panguna mine was situated. Where reference is made to islands other than the main landmass, specific annotation is given.

Papua New Guinea used Australian currency until 19 April 1975, when that country introduced its own, the kina and toea (1 kina = 100 toea). At that time K1 was equal to A\$1, and it remained pegged to the Australian dollar until 1 January 1976 after which the exchange rate varied. Throughout the 1980s, the kina hovered around A\$1-50, but was revalued to A\$1-36 in 1989 after the closure of the Bougainville mine. As at 1 June 2000, the exchange rate was K1:A\$0-64 (K1:US\$0-37). Currency conversions shown throughout this thesis reflect the approximate exchange rates prevailing during the period under discussion.

Two measures of mass are noted in this thesis; ton and tonne. Ton was the imperial measure used by Australia and Papua New Guinea until 1974, at which time the metric measure, tonne (1,000 kilograms) was introduced. The imperial ton weighs 2,240 pounds, referred to in the mining industry as a 'long ton' (as opposed to a 'short ton' of 2,000 pounds used in numerous other industries). One tonne equates to 2,204.6 pounds.

The history detailed in this thesis concludes in October 1999, when Papua New Guinea promised the Bougainvillean people the autonomy for which they had struggled for decades. At the time of writing, this had not been enacted by the central government.

As anonymity was assured to the former executives of CRA/BCL who graciously assisted in the preparation of this thesis, individual recognition has been avoided. Accordingly, passages of the text which are based on their information are cited in non-personal terms.

# **CHAPTER 1**

## **RATIONALE AND INTRODUCTION TO THE THESIS**

### **OBJECTIVES OF THE CHAPTER**

This chapter provides an introduction to the thesis. The rationale for the research of the thesis is presented, followed by a précis of the subject case study and a statement of the scope of the inquiry. The research questions are noted, and the key terms used in the thesis are defined. The chapter concludes with a description of the organisation of the thesis.

### **RATIONALE FOR THE THESIS**

Commercial transactions have been conducted across national borders since the beginning of recorded history (Adler, 1986). Since the 1970s however, the exponential growth in international business has been typified by increasing numbers of multinational enterprises (MNEs), escalating foreign investment, and a growing diversity of products being manufactured and sold abroad (Bartlett & Ghoshal, 1995; Doz, 1991; Dunning, 1993). Concomitant with the expansion of global trade and investment has been the need for managers to understand the international business environment and how this environment affects strategy formulation and implementation in multinational enterprises (Buckley, 1994; Dunning, 1993; Sundaram & Black, 1995). Accordingly, management research has been increasingly concerned with the challenges which arise when firms' operations extend beyond domestic borders (Buckley, 1996; Robock & Simmonds, 1989).

A significant outcome of international management research is the realisation that MNE performance depends, in large measure, on two factors: assessing and managing the impact which the external operating environment has on the firm, and the adaption of the organisation to that environment (Bartlett & Ghoshal, 1995; Child, 1997; DiMaggio & Powell, 1983; Garland, Farmer & Taylor, 1990; Ronen, 1986). As a result, the literature emphasises the need for MNEs need to achieve and maintain congruency between their internal and external operating contexts (Al-Shammari, 1994; Doz, Prahalad & Hamel, 1990; Farmer & Richman, 1965; Prahalad & Doz, 1987). The extent to which firms are able to manipulate these environments to achieve the desired

congruency is restricted by several factors, however. Regardless of how sensitive management may be to its surroundings, the degree to which it is possible to fashion corporate operations to suit external factors is restricted (Child, 1981; Laurent, 1986). Similarly, there are limits on a management's ability to alter particular exogenous components within its milieu (Fatehi, 1996; Garland *et al.*, 1990; Hofstede, 1987).

The difficulties which MNE management encounters in aligning internal and external factors are particularly evident in less developed countries (LDCs). Whereas business conditions in industrialised economies are largely attuned to corporate needs, the human and structural characteristics of LDCs generally present an antithetical environment. Typically, MNEs from developed countries (DCs) which operate in emerging economies are confronted by an intricate interplay of diverse legal, cultural, economic and political realities which combine to create significant barriers to the pursuit of business interests. Thus, as the business climate in the host country deviates from that experienced in the home country, the likelihood of management achieving symmetry between the internal and external environment decreases. Under these conditions, corporate performance may be at risk (Brown, 1994; Hibbert, 1997; Kolde, 1985).

The examination of a DC MNE operating in an LDC is an ideal vehicle for gauging the influence of home–host country heterogeneity on the realisation of environmental congruency because it provides a sharp contrast in operating contexts and the organisational variances therein. This thesis seeks to contribute to the current body of literature on international management by researching the impact of divergent business environments on the performance of an Australian company located in a developing Pacific economy.

It is considered that a single, longitudinal case study is an appropriate research methodology for the objectives of the thesis. A qualitative approach provides the detail and depth required to interpret the complex environmental elements inherent in the analysis of organisations and management. By applying prior research and theories to the data which emerge from the case, exploratory and explanatory outcomes may be accomplished. The limitations associated with qualitative inquiry may be minimised through careful case design and the development of a case protocol (Bresnen, 1988; Dunkerley, 1988; Eisenhardt, 1989; Patton, 1990; Pettigrew, 1990).

## OUTLINE OF THE CASE STUDY

The focal organisation of this thesis is Bougainville Copper Limited (BCL), which operated the Panguna mine on Bougainville island between 1963 and 1990. A prefatorial overview is offered here to acquaint the reader with the history of the mining company and its host environment.

Evidence of Bougainville's mineral deposits date from the 1930s, but the potential of the resource was not appreciated until exploration in the early 1960s revealed extensive copper and gold reserves. As a result, Conzinc-Riotinto of Australia (CRA), established an open-pit mine at Panguna in the south-central region. The negotiations which preceded the commencement of operations in 1972 were, by legal necessity, conducted with the Papua New Guinea (PNG) and Australian governments, both of which displayed little sensitivity to the traditions of the Bougainvillean people, whose lives would be affected by the mine. Notwithstanding, CRA's management appreciated its responsibilities to the island's communities, and developed social and economic policies which were widely considered as progressive and generous for the period.

Disillusioned by decades of colonial domination and resentful of Japan's cruel occupation during World War II (WWII), the Bougainvilleans tended to be suspicious of outsiders and generally opposed any form of foreign business involvement with their communities. The island's unilateral incorporation into an independent PNG in 1975 served to aggravate the people's bitterness and scepticism, and revived calls for political and economic independence.

The mine and its facilities produced many employment opportunities for the Bougainvilleans, made a huge contribution to PNG revenue by way of taxes, royalties and dividends, and provided the island with social services such as health, education and recreation amenities. However, these benefits were accompanied by substantial ecological damage, the expropriation of land from traditional owners, the disintegration of the Bougainvilleans' egalitarian social structure and the disturbance of farms and plantations. The quantum and disbursement of compensation for these losses was an issue of contention, and further dissatisfaction emerged from PNG's refusal to return equitable amounts of government revenue to the Bougainville people.

In 1987, purporting to represent the majority of Bougainvilleans, the Panguna Landowners Association (PLA) demanded from BCL compensation of K10

billion (A\$16 billion/US\$11.6 billion), a 50 per cent share of the mine's profits and increased environmental protection. Negotiations throughout the coming year failed to settle the matter, and in November 1988 the PLA instituted a campaign of disruption against the mine. By January 1989 the situation had deteriorated into violence which resulted in PNG mobilising armed forces on the island.

Offers of settlement by PNG during 1989 were to no avail, and the military presence was strengthened in the face of increasing civil disorder. Human rights violations by the PNG militia inflamed the situation, consolidating many islanders behind the PLA's guerilla force, the Bougainville Revolutionary Army (BRA). As a result, PNG declared a state of emergency on the island.

Sabotage forced the mine to suspend production in May 1989. Operations resumed in the following September, but after further attacks the plant was closed indefinitely. To protect its workers, the company began to evacuate all non-Bougainvillean personnel forthwith, with the last employees leaving the island in February 1990. The mine remains abandoned to this day.

To stem the escalating bloodshed, the central government declared a cease-fire and withdrew its army in February 1990. When PNG imposed a blockade of goods and services in May 1990 however, the BRA leadership declared Bougainville an independent republic. Although the secession is not recognised by PNG or the United Nations, the Bougainvilleans resisted national and international attempts of reconciliation for nearly 10 years despite the violence, poverty and disease occasioned by their political and economic isolation. Hostilities formally ceased in April 1998, and conditional autonomy was offered by PNG in October 1999.

## **THE SCOPE OF THE CASE STUDY**

Although the central theme of this thesis is the management of the Panguna mine and BCL's 27 year relationship with the Bougainvillean people, the conceptual and temporal boundaries of the study are more comprehensive. The broad array of interwoven factors which contributed to the final outcome demand a detailed exploration of the historical, social and political forces which preceded the period under examination. Similarly, whilst the analysis of the case concludes with the closure of the mine in 1990, subsequent events of

significance to the Bougainvilleans, PNG, Australia and the company are considered. This extension serves to highlight the long-term impact which the management of MNE may have on various stakeholders.

## RESEARCH QUESTIONS

Based on the issues noted in the rationale for the thesis, the central research question for investigation in this study is:

*In what ways might the experience of Bougainville Copper Limited be instructive to the study and practice of MNE management in environments which are significantly different to home country conditions?*

This question will be considered in the light of seven sub-questions which form the basis for the research. These questions are:

**Research Question 1a:** *To what extent were elements of the internal operating environment of Bougainville Copper Limited (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's external operating environment (i.e. legal, cultural, economic and political factors)?*

**Research Question 1b:** *To what extent were elements of the external operating environment of Bougainville Copper Limited (i.e. legal, cultural, economic and political factors) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's internal operating environment (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture)?*

**Research Question 2a:** *Which of the internal factors – the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture – had an impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

**Research Question 2b:** *To what extent did the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

**Research Question 3a:** *Which of the external factors – legal, cultural, economic or political – had an impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

**Research Question 3b:** *To what extent did legal, cultural, economic and political factors impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

**Research Question 4:** *Was the closure of Bougainville Copper Limited's Panguna mine the result of a deficiency in environmental alignment?*

To satisfy the inductive nature of this inquiry, the research questions have been intentionally cast in broad terms. The purpose of not restricting the scope of the questions is to allow for maximum flexibility in the research process (Hakim, 1987) and to decrease the risk of limiting the findings (Eisenhardt, 1989).

## DEFINITIONS AND TERMINOLOGY

As the title of this thesis implies, 'international management' is a critical term for this study. Phatak (1997:3) defines international management as

... a process of accomplishing the global objectives of a firm by (1) effectively coordinating the procurement, allocation, and utilization of the human, financial, intellectual, and physical resources of the firm within and across national boundaries and (2) effectively charting the path toward the desired organizational goals by navigating the firm through a global environment that is not only dynamic but often very hostile to the firm's survival.

Invariably, discussions concerning the management of enterprises across international borders incorporate elements of comparative management. International and comparative management are not synonymous. Whereas the former concerns the process of applying management concepts and techniques in the context of the international economy (Kefalas, 1990), the latter focuses on "cross-cultural or cross-national similarities and differences of management phenomena" (Miller, 1984:71). From a research perspective, comparative management provides the local information necessary for understanding international management (Boxall, 1995). Because of the complementary nature of the two, many aspects of international management discussed in this thesis are informed by comparative management, although the latter term is not specifically used.

Given the focus of the central research question, the term 'multinational enterprise' needs to be considered. While the literature distinguishes between multinational, international, transnational and global organisations (Bartlett & Ghoshal, 1995; Kaynak, 1993), this thesis adopts 'multinational enterprise' as a general designation for organisations which accord with the following definition. Sundaram and Black (1995:3), define a multinational enterprise as

any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making permitting influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise.

BCL is a public corporation, the registered office of which is in Port Moresby, PNG. The company was structured into three units; production, personnel and community relations, and administration. Each of these units were under the direction of a Assistant General Manager who, in turn, was responsible to the General Manager/Managing Director. All senior officers of BCL, apart from the Board, were located on Bougainville. During the productive years of the Panguna facility, the mine was managed by this team, with minimal operational input from the Australian-based CRA. As the situation on the island began to deteriorate in 1987, CRA executives became involved in the mine's affairs - especially at the political level. Since the closure of the mine, the affairs of BCL have been managed by CRA Minerals (PNG) Pty. Ltd. (BCL Annual Report, 1994; Quodling, 1991). Reference to the management of BCL throughout this thesis is to be construed as the local senior executives, except where otherwise stated.

As much of the discussion in this thesis concerns the concept of 'culture' and its effect on the management of MNEs, the term requires specification. Definitions of culture are dependent upon the context in which they are used. In general terms, culture may be considered as a system of "socially transmitted behaviour patterns that serve to relate human communities to their ecological settings" (Keesing, 1974:75). That is, culture constitutes the accepted beliefs, habits, attitudes, traditions and practices of a certain group through which that group meets its needs. This thesis uses the term culture in two senses:

- National (or social) culture refers to the collective character of groups within a given geographic area (Bartlett & Ghoshal, 1992) which represents the "knowledge, belief, art, morals and customs ... acquired by man [sic] as a member of society (Herskovits, cited in Phatak, 1997:142).



- Corporate culture is a shared set of values which provide a common direction for the behaviour of all employees in a particular organisation (Maddox, 1993).

Whilst distinct concepts, national and corporate culture are inextricably linked as “organizations are actually microcultures that operate within the larger context of a national macroculture” (Harris & Moran, 1996:83).

The most defining contextual characteristic of this case study is the lack of economic and social development of the host country and host society. Both PNG and Bougainville are regarded as ‘less developed countries’. LDCs are states which, in relation to the industrialised world, endure some measure of economic and/or social deprivation. A detailed categorisation of stages in development appears in Chapter 2. Various terms are used to denote LDCs. ‘First, Second and Third World’ were coined in the 1950s to differentiate between industrialised, communist and undeveloped countries respectively. Whilst ‘First World’ and ‘Second World’ are not in contemporary use, ‘Third World’ is still widely adopted in describing the poorer countries. In recent years, terms such as ‘developing countries’ and ‘less/lesser developed countries’ have emerged as these phrases are more positive and echo a sense of moving forward. The labels ‘North’ (richer) and ‘South’ (poorer) countries are also in common use. This thesis generally uses LDC in describing emerging states.

A term which is employed with specific meaning in this thesis is ‘corporate performance’. The measures used in determining corporate performance reflect the objectives of a particular industry sector, organisation or business unit. For example, Negandhi and Palia (1989:396–397) report that “the performance of [a certain] computer industry is evaluated in terms of the three stated goals of ownership participation and control, self-sufficiency, and technology transfer”. Dyer and Reeves take a different perspective, and focus on micro-level results: “human resource outcomes such as absenteeism, turnover and individual or group performance [and] organizational outcomes such as productivity, quality and service” (1995:661). The general indicators of corporate performance in ‘for profit’ operations however, are financial or accounting outcomes such as growth, sales volume, net profit, return on assets, and return on invested capital (Beamish, Killing, Lecraw & Morrison, 1994; Peterson, Sargent, Napier & Shim, 1996; Porter, 1980; Prahalad & Doz, 1987). Notwithstanding, as Katz and Kahn (1978:244) advise, “organizational survival [is] the sovereign goal of all organizations and the appropriate criterion of organizational

performance". This thesis adopts Katz and Kahn's (1978) view that, ultimately, corporate performance equates to corporate survival.

A glossary of terms used in this thesis is presented at pages xviii–xix.

## **ORGANISATION OF THE THESIS**

Chapter 1 provides the rationale for the thesis, introduces the BCL case, and defines key terms used in the study. Chapter 2 explores the literature on international management. It investigates the nature of MNEs and the environmental factors which impact on their operation, with particular emphasis on the management of DC companies operating in LDCs. Various management and organisation theories are examined. In Chapter 3, the central and subordinate research questions are presented, and the research methodology adopted in this inquiry is described. Using a single case study approach, the management of an MNE in an LDC is researched by way of analysing data elicited from documentary evidence and interviews. The subsequent three chapters provide the case material: Chapter 4 reports on the history of Bougainville, Chapter 5 details the operation and management of the Panguna mine, and Chapter 6 discusses the Bougainville revolution, the closure of the mine and the consequences of the war. Chapter 7 analyses the case study data in the light of prior research and the theories deduced from the literature review. In Chapter 8, the research questions are used to structure the analysis and discussion of the research findings and the conclusions of the thesis. This chapter also canvasses the implications of the inquiry as they relate to policy development, management practice, theory development and further research. The thesis closes with a statement of the limitations of the study, and a brief summary of the thesis.

## **CHAPTER 2**

### **INTERNATIONAL MANAGEMENT: A REVIEW OF THE LITERATURE**

#### **OBJECTIVES OF THE CHAPTER**

The objectives of this chapter are to review extant literature on international management and to explore theories and studies which centre on the management of multinational companies which operate in diverse business contexts. Following a brief introduction to international business and the nature and management of MNEs, the operating environment of international management is explored. The literature identifies those elements, endogenous and exogenous to the firm, which influence MNE performance and proposes various approaches to their management. The chapter then focuses on the characteristics of LDCs, their relationship with foreign corporations, and the management challenges they pose for MNEs.

The chapter goes on to consider the challenges which firms encounter in aligning the internal and external properties of their environment, and argues that this objective becomes increasingly difficult to achieve as the heterogeneity between home and host countries increases. The selection of Bougainville Copper Limited as the subject case is considered, and the chapter concludes with a statement of the seven research questions for investigation in this thesis.

#### **THE EVOLUTION OF GLOBAL BUSINESS, MULTINATIONAL ENTERPRISES AND INTERNATIONAL MANAGEMENT**

This section provides an overview of international business, multinational enterprises, and international management. A general review of these factors is necessary as they form the context in which the affairs of MNEs are conducted, regardless of the nature of the host country or the objectives of the enterprise.

##### **International Business**

International business “occurs whenever an individual, corporation or public institution located in one country engages in a commercial transaction with an individual, corporation or public institution in another country” (Dunning, 1993:4), and consists of four main components: foreign trade, trade in services,

portfolio investments and direct investments (Caves, 1982; Khambata & Ajami, 1992). The history and rationale of commerce between countries is summarised below, together with a discussion of the international management imperative which has accompanied escalating business globalisation over the past three decades.

### *Historical development*

International business is as old as human civilisation and has been an integral feature of most societies throughout history<sup>1</sup>. Early theories of international business focused on mercantilism which asserted that national wealth was measured by a country's holdings of precious metals; gold and silver being the currency of trade between countries. Aiming to maintain a trade surplus by accumulating gold and silver, countries could fund armies to expand their colonial empires. The mercantilist views of the 15<sup>th</sup> and 16<sup>th</sup> declined as classical economists, most notably Hume, Smith and Ricardo, argued for a relaxation of government control in favour of more *laissez-faire* approaches to international trade (Hutton, 1988; Robock & Simmonds, 1989). Free-market philosophies extended in the 18<sup>th</sup> century as the industrial revolution prompted Europe's emerging capitalists to seek cheap and secure sources of raw material in overseas investments (Nath, 1988). Throughout the 19<sup>th</sup> century, world trade increased steadily due to improving transport and technology, plus a growing recognition of the economic and social benefits afforded by international business. The years between the two World Wars were marked by an expansion of off-shore enterprises as companies based in Europe and the United States (U.S.) took advantage of concessions offered by countries with smaller or undeveloped economies (Ronen, 1986). Reconstruction and the emergence of newly independent nations following WWII resulted in a continual increase in international commercial activity (*Partners in Development*, 1970). This phenomenon was dominated by the U.S.A. until the late 1960s, after which Japanese and European firms took the lead in global trade and investment (Dymsza, 1987a). The 1980s saw the rapid emergence of the Pacific Basin nations (Garnaut & Drysdale, 1994) due, in the main, to the ascendancy of the Asian Newly Industrialised Countries (NICs)<sup>2</sup>. Global business at the end of the 20<sup>th</sup> century has reached unprecedented levels; the volume of international trade has expanded from US\$200 billion (Sundaram & Black, 1995) to more

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<sup>1</sup> An historical account of international trade patterns is provided by Hutton (1988:3-8) and Dunning (1993: Chapter 5).

<sup>2</sup> NICs are those countries which were previously classified as less developed, but which have experienced rapid economic growth in recent years (Kogut, 1991).

than US\$6 trillion in the last 25 years (*WTO International Trade*, 1999), and the trend is expected to continue into the new millennium (World Bank, cited in *The Economist*, 1994: 3–4).

### *Forces Driving the Growth of International Business*

Various environmental pressures compel organisations, both large and small, to operate in the global economy. The primary motivators of internationalisation<sup>3</sup>, over which the business community has little control, are resource acquisition, market growth, competitive forces, technological advances, changes in consumption patterns, and government policies. These are briefly discussed below, in turn.

Several factors are forcing companies to increasingly seek foreign suppliers of resources. These include: (i) local scarcity or unavailability of required products or services (Khambata & Ajami, 1992; Punnett, 1989), (ii) reduced labour costs (Phatak, 1997), (iii) cheaper materials or components (Dunning, 1993), and (iv) access to low-cost finance (Sundaram & Black, 1995).

When the productive capacity of companies exceeds domestic demand, new marketing opportunities are sought in other countries. The trend for both large and small MNEs to generate sales outside their home market has been increasing over the past two decades (Bartlett & Ghoshal, 1995).

While early economic theory emphasised those inherent characteristics which afford a given country competitive advantage, contemporary thought focuses on global competition. Porter (1990) argues that competition depends on industry's ability to innovate, and advantage accrues to companies which innovate in order to compete in the global marketplace. Thus, as firms begin to expand into foreign markets, their competitors have little choice but to follow.

The ability of many MNEs to develop or acquire sophisticated technology enables them to coordinate manufacturing, management, services and processes around the world. This results in the efficient delivery of low cost goods and services to a diversified market. The primary areas of technological advantage are information processing, communication and transportation (Casson, 1995; Dunning, 1993).

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<sup>3</sup> 'Internationalisation' is the process by which a firm changes from a purely domestic to an international organisation. The sequence of evolution is generally one of moving from no exporting, to exporting via an agent, to a sales subsidiary and, finally, to a production facility (Welch & Loustarinen, 1988).

Whereas most products and services were previously restricted to domestic consumption, many companies are now recognising that customers in different countries have similar needs and wants. Common consumer demands simplify firms' participation in the world economy because fewer product and service varieties can serve many markets (Levitt, 1991; Yip, 1995). Notwithstanding, firms need to approach global product standardisation with caution due to local idiosyncrasies in many markets (Kashani, 1989; Whitelock, 1987).

Beginning with the Bretton Woods Agreement<sup>4</sup>, many countries have been working towards reducing protectionism, deregulating exchange rates, and eliminating barriers to foreign investment. This process has been accelerated by the widespread acceptance of the principles of the World Trade Organisation<sup>5</sup> (Hibbert, 1997).

### *The Global Economy*

Concomitant with the intensification of international business activities has been a change in organisational perspectives. Whereas firms once considered individual countries as distinct and independent zones of commercial activity, the emergent focus is on the need to operate within a worldwide marketplace. Dicken (1992) terms this change in the world economy as the 'global shift'. For firms operating in the global economy however, the nature and impact of this change is not clear; as Parker (1996:485) reports, "There is a lack of consensus about what globalization is and means". The evolving body of literature on globalisation is diffuse in both the concepts it presents and the strategies for firms which it implies. For example, Levitt (1991) argued in 1983 that converging consumer tastes offer MNEs economies of scale in producing standardised products; Hamel and Prahalad (1985) propose cross-subsidisation as an MNE strategy for competition, noting "cross-subsidization and retaliation describes the battle, [but] world brand dominance is what the global war is all about" (pg 140); Porter's (1986) industry-based approach suggests that global strategies should seek "competitive advantage...through either a concentrated

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<sup>4</sup> In 1944, representatives from 46 Allied nations gathered at Bretton Woods, New Hampshire, USA to plan a stable and sustainable international monetary system which would be instigated following the end of WWII. The International Bank for Reconstruction and Development (The World Bank), and the International Monetary Fund were established at this forum.

<sup>5</sup> In 1947, 23 countries endorsed the 'General Agreement on Tariffs and Trade' (GATT) which stipulated the principles of negotiating the reduction of trade barriers on a multilateral basis. In January 1995, the World Trade Organisation (WTO) took over from GATT with increased powers of investigation, arbitration and compliance. (Dunning, 1993; Garland *et al.*, 1990; Schwab & Smadja, 1995).

configuration, coordination among dispersed activities, or both” (pg 29); and Prahalad and Doz (1987) contend that elements of international business are both pressures for global integration (“centralized management of geographically dispersed activities”, pg 14) and pressures for local responsiveness (“resource commitment decisions taken autonomously by a subsidiary in response to local...demands”, pg 15)<sup>6</sup>. Notwithstanding this diffusion, Parker (1996:485) distils prior research into a broad definition:

Globalization is more usually described in the business literature as shifts in traditional patterns of international production, investment, and trade (Dicken, 1992); or as interconnections between overlapping interests of business and society (Brown, 1992; Renesch, 1992).

Parker’s definition alludes to the breadth and complexity of globalisation, not only for commercial enterprises, but also for society and its institutions. The rapid development of this phenomenon has had a profound impact on the behaviour and policies of both governments and companies. According to Beamish *et al.*, (1994:33), globalisation has resulted in

...increased exposure for both firms and countries to the forces in the international economy: changes in prices and demand in export markets, changes in prices and supply of imported products, and changes in exchange rates. The increased openness to the international economic environment can increase the variability of a firm’s profits and of a nation’s GNP growth rate and, hence, increase the risks of a firm’s operations and reduce the stability of a country’s economy.

International business therefore, is not only a mechanism for the exchange of products and services for private profit, it is also an influential agent in the governance and economic welfare of much of the world’s population.

At the political level, the most significant impact of globalisation has been the ongoing decline in importance of nations as economic units. In the past, national borders represented the delineation of both political and economic independence, but today the lines on a map mainly portray political perimeters<sup>7</sup> (Ohmae, 1995). As international competition has impelled countries, institutions and people towards an interdependent global economy, economic boundaries have become largely redundant. The move towards world-wide economic integration has been marked by agreements between countries and groups of

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<sup>6</sup> This précis of the research on the character of globalisation is representative of the many inquiries and perspectives presented in the literature. A detailed study of the evolution of globalisation and its implications for firms appears in Parker (1996).

<sup>7</sup> Paradoxically, national borders have generally had their genesis in the imperatives of international business. The Egyptian, Greek, Roman and Phoenician empires were built on foreign trade (Dunning, 1996:96; Punnett, 1989:7), Europe’s commercial houses were driving forces in establishing colonial dominions (Selvarajah, 1991b:133), and the U.S. secession from Britain primarily resulted from divisions over trading arrangements (Kolde, 1985:285). Thus national borders evolved as markers of both political and economic independence.

countries which provide for the free movement of goods, services, capital and labour across borders (Root, 1992). The most visible of these include the WTO, the European Union (EU), the Association of South-East Asian Nations (ASEAN) Free Trade Area, and the North American Free Trade Agreement (NAFTA).

## International Management

Bartlett and Ghoshal (1995) note that the demands of globalisation have put a high premium on building the organisations and strategies capable of meeting the requirements of a borderless world. This has placed a substantial onus on those charged with managing worldwide business activities. International management is defined by Phatak (1997:3) as

... a process of accomplishing the global objectives of a firm by (1) effectively coordinating the procurement, allocation, and utilization of the human, financial, intellectual, and physical resources of the firm within and across national boundaries and (2) effectively charting the path toward the desired organizational goals by navigating the firm through a global environment that is not only dynamic but often very hostile to the firm's survival.

From Phatak's description, it is evident that international management involves the same functions as domestic management (for example: planning, organising, sourcing, marketing, production, financing, strategy development and implementation, and human resource management), but in a different milieu. Foreign environments have a substantial impact on the management process because the nature and outcomes of each function need to be varied according to the unique set of factors in each specific environment.

The distinction between domestic and international management was not widely recognised until the 1950s when there was a gradual awakening that managerial behaviour differed from one nation to another (Peterson, 1993). Whilst this recognition spawned studies in the fledgling disciplines of international management and comparative management, scholars of that time

...either ignored the roles of environment and culture or treated them rather superficially. The main thrust of work in these areas [was] nomothetic – that is, looking for relationships that are universally applicable (Nath, 1988:4).

By the 1960s, researchers began to explore the notion that environmental variables impact on all aspects of management, and "managerial behavior had elements of both universalism and particularism" (Peterson, 1993:14).

A number of organisation theories which explain the development and form of MNEs relative to their environments are discussed at a later point in this chapter. Rooted variously in economic, sociological, cultural and political principles



(Scott, 1987), these theories are significant contributors to understanding international business and the management of MNEs. The close conceptual association between international business and international management has been examined by Buckley (1994, 1996). He argues that although “the two literatures are addressing similar research issues and proceed on parallel lines” (1996:47), the philosophical approaches taken in researching the two disciplines have been too divergent, and this has resulted in the literature marginalising the role of management in the strategic choices of MNEs. Highlighting the fact that firms are not driven solely by external circumstances, Buckley (1994) contends that more emphasis needs to be placed on integrating the tenets of organisational analysis with management strategies. Such integration has “a great deal of scope for meeting the challenge of ‘putting management back in’ from approaches entirely *within* the current [orthodox and neoclassical economic] framework” (Buckley, 1996:23).

### **Multinational Enterprises**

MNEs are essentially a phenomenon of the 20<sup>th</sup> century, although a few companies not associated with colonial regimes developed foreign operations in the 1800s<sup>8</sup>. Most early MNEs were established by individuals or partnerships but, as industrialisation progressed, the need for increased capital resulted in public companies displacing private firms (Khambata & Ajami, 1992). Aggressive expansion by U.S. companies following WWII extended the size and number of MNEs and, as other nations began to encourage international commerce, the influence, reach and diversity of MNEs grew rapidly.

Described as “the primary engine for globalization” (Sundaram & Black, 1995:9), MNEs now dominate the world economic landscape. In 1995, the number of MNEs had reached an estimated 39,000 with approximately 270,000 foreign affiliates around the globe (*World Investment Report*, 1996). Collectively, MNEs had over US\$2.7 trillion invested in states other than their home country in 1995 (*World Investment Report*, 1996), and they account for about 25 per cent of the value added in the production of all goods and services in the world’s market economies (Bartlett & Ghoshal, 1992). Due to increased global communication, political stability and technological advances, it is anticipated that MNEs will prosper and expand in the future (Alkhafaji, 1995; *World Investment Report*, 1996). Concerning the long-term strategic focus of

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<sup>8</sup> Wilkins (1974) and Dymsha (1987a) identify a limited number of extractive, utility and manufacturing firms which were operating internationally from about 1850.

MNEs, it is anticipated that they will (i) increasingly view the world as one market, rather than a composite of individual, differentiated markets, and (ii) make production and marketing decisions with little regard for specific national biases (Yip, 1995).

## **THE OPERATING ENVIRONMENT OF INTERNATIONAL MANAGEMENT**

Irrespective of individual objectives or processes, the context in which all MNEs operate is more complex than that of domestic firms. In crossing national borders, organisations are exposed to an unfamiliar realm where many of the assumptions which underpin their domestic activities do not hold. Accordingly, those managing MNEs need to achieve a significant degree of alignment between their operations and the prevailing environmental climate if corporate performance is to be achieved and maintained. This section examines the interdependence of MNEs and their environments. Significant external and internal influences are considered, with the primary focus being the manner in which these may be managed in order to establish and maintain an appropriate fit between MNE operations and business conditions in the host country<sup>9</sup>. The discussion concludes with a review of various theoretical perspectives of the corporate–environment relationship.

### **The Demands of the Host Country: The External Environment**

Virtually all aspects of organisational and management activities are influenced, to some degree, by factors external to the firm. Describing the nexus between business and the environment, Farmer and Richman (1965:25) report that

A productive enterprise necessarily forms part of a complex educational-sociological-cultural-political-legal-economic whole. No enterprise or individual can exist entirely divorced from its environment and both influence and are significantly influenced by the nature of the total environment.

The business environment of a given economy provides all firms operating therein with common rules, both expressed and implied, with which they must comply. As each environment is country specific, companies which cross national borders need to deal with different, and often alien, rules. For management, the consequences are significant; environmental factors which in

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<sup>9</sup> The organisational and management considerations included in this thesis are not exhaustive, rather they are restricted to those pertaining to the case under review and the research imperatives presented in Chapter 1. Other factors which impact on MNE performance include corporate and business strategy (Hamel & Prahalad, 1985), organisational structure (Davis 1979), and technology transfer (Alkhafaji, 1995).

the domestic setting could be treated as constants now become variables (Kolde, 1985). Interpreting the nature and possible impact of each dimension of the host environment is therefore essential in the management of MNEs. Farmer and Richman's six factors may be collapsed into four basic elements: legal, cultural, economic, and political (Buckley, 1990; Earley & Singh, 1995). Using this categorisation, these environmental dimensions are considered below in terms of how they may influence the autonomy of MNEs and the parameters of corporate activities. This discussion is followed by a review of environmental assessment and management.

### *The Legal Environment*

Despite their diminishing economic relevance, the political significance of national boundaries remains largely intact. Kobrin (1993:27) reports that the critical consequence of political borders today is the rights of self-regulation which they represent:

The modern state is defined in terms of political control over geographic territory and an absence of supranational or central authority. State sovereignty entails ultimate law making and law enforcing authority within a specific geographic area and that requires borders that are both sharply defined and impermeable.

The political sovereignty of the world's nations has three broad implications for firms engaged in international business. Firstly, as all firms are bound by the rights and duties imposed by the states in which they operate, reliance on home country laws for direction or remedy is not possible (Molz & Gedajlovic, 1992). Secondly, MNEs must act in accordance with any treaties its home and host country may have between themselves or any other nation (Vernon & Wells, 1986). Thirdly, the absence of a global commercial legal code<sup>10</sup> means that there is no supranational body which can consider matters or enforce judgments in the event of conflicts at law (Phatak, 1997). In considering this, Schwab and Smadja (1995:110) note that the "international institutions required to sustain, monitor, and supervise the new global economic order will need to be established or revamped as soon as possible. The creation of the World

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<sup>10</sup> Various attempts to regulate international business have been made over the past 70 years. The OECD *Declaration on International Investment and Multinational Enterprise* was initiated in 1976. The success of the OECD policies has been limited because their adoption and implementation is voluntary and they rely on the discretion of individual national governments for their enforcement. In 1990, the UN Economic and Social Council proposed a *Code of Conduct on Transnational Corporations*; nations may either accept these standards as goals or adopt them into legislation. Whilst such guidelines may not be enforceable, they have codified a collective attitude towards the relationship between MNEs and governments by which the behaviour of the parties may be evaluated (Alkhafaji, 1995; De George, 1993; Donaldson, 1989).

Trade Organization is one important step in this respect". The latter is particularly problematical for MNEs as they may need to negotiate issues such as interpreting the content and/or spirit of certain laws, determining which laws and jurisdictions apply in a given situation, and understanding how the laws are executed (Alkhafaji, 1995). These difficulties are magnified when unwritten tribal laws define the rights of parties (Farmer & Richman, 1965) or religious codes impinge on the legal process (Fatehi, 1996).

In general terms, the legal matters which most concern MNEs are those relating to establishment rights, protection of real and intellectual property rights, taxation treaties, international dispute settlement (Schuler, Dowling & De Cieri, 1993), price setting, monopolisation, labour matters (Farmer & Richman, 1965), multinational bankruptcy, and tradeoffs between off-shore business and home country foreign policy (Sundaram & Black, 1995).

Concern over the legal and jurisdictional aspects of international business is not confined to MNEs. Host country governments also experience difficulties in applying laws relating to foreign corporations, and are often "seriously troubled because of their perception that multinational firms can and do escape from national regulations and laws" (Robock & Simmonds, 1989:170).

### *The Cultural Environment*

Although an agreed definition of culture is elusive (Allen, Miller & Nath, 1988), in broad terms it may be considered as the dominant set of learned, shared and interrelated behaviours within a society. Hofstede (1991:5) considers culture to be "the collective programming of the mind which distinguishes the members of one human group from another. It is learned, not inherited. It derives from one's environment, not one's genes". Schein (1985) proposes that culture operates on three planes: i) visible symbols and behaviours; ii) the beliefs and values which regulate those symbols and behaviours; and iii) the underlying assumptions which prescribe ways of viewing the world, self, and others. These elements combine to "become the rules that exist in people's minds" (Sundaram & Black, 1995:267) which ultimately govern such matters as community organisation, division of labour, ethics, family, government, inheritance, language, law, mythology, penal sanctions, property rights, residence rules, status differentiation, and trade (Murdock, cited in Robock & Simmonds, 1989).

Traditional organisational thinking and practice has treated the role of culture in management superficially. The cultural dimension was either totally ignored due to 'naive parochialism' (Laurent, 1986), or it was assumed that the imperatives of industrialisation would diminish the significance of culture in the corporate world (Harbison & Myers, 1959). The past neglect of cultural influences has led to tensions between the managers of MNEs and their host country governments, customers, fellow managers, employees, and business associates, as well as causing personal and professional problems for expatriate employees (Harris & Moran, 1996; Khambata & Ajami, 1992; Stening & Yamaguchi, 1981). This pattern is changing as the extent of cultural influences on international management is recognised and accepted (Ali, Azim & Krishnan, 1995; Lowe, 1996; Terpstra & David, 1991), and as it becomes more evident that cultural differences between people cannot be extinguished<sup>11</sup> (Ford, 1994; Hofstede, 1987; Naisbitt & Aburdene, 1990).

Globalisation demands that appreciation of a host country's cultural system is no longer an option for the managers of MNEs. While complete understanding of a foreign culture is almost impossible (Ricks, 1983), knowledge of the predominant attitudes, values, beliefs and opinions in the local environment is a cardinal component of international management (Adler, 1986; Franke, Hofstede & Bond, 1991; Khambata & Ajami, 1992; Kolde, 1985). Reflecting Schein's three levels of cultural influence (above), Hofstede (1987:322) explains the cultural dependency of management:

... managing and organizing do not consist of making or moving tangible objects, but of manipulating symbols which have meaning to the people who are managed or organized. Because the meaning which we associate with symbols is heavily affected by what we have learned [from] society, management and organization are penetrated with culture ... and if we see what effective organizations in different cultures have done, we recognise that their leaders did adapt foreign management ideas to local cultural conditions.

Hofstede's recommendation that management approaches be tailored to the local situation recognises that culture is relative and acknowledges the need for managers to avoid the imposition of home country conditioning by making allowances when dealing with those from other cultures (Harris & Moran, 1996).

Because "one cannot necessarily assume that cultural boundaries correspond to national (political) boundaries" (Child, 1981:307), cultural generalisations are fraught with difficulties. Rugimbana and Zeffane (1995) suggest that attempts to

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<sup>11</sup> The convergence-divergence-crossvergence debate is discussed later in this chapter.

generalise need to consider historical as well as cultural elements, and Kolde (1985) warns against not accounting for subcultural variations such as regional factors, social classes, religion, gender and age. Au (1997) supports Kolde's argument, but proposes that cross cultural diversity is actually caused by intra-cultural differences. This means that, although the influence of culture is pervasive, it is not absolute at the individual level and each person holds peculiar views which are often camouflaged under the surface of culturally conditioned behaviour (Maruyama, 1992). Clearly, these are significant variables which further complicate the task of effectively moulding management approaches to local attitudes and behaviours.

Beyond understanding the differences between and among cultures, international managers must also know when these differences are important (Dowling, Welch & Schuler, 1999). Whilst the cultural significance of each encounter turns on many variables, much depends on the willingness of a given society to accept the thought and behaviour patterns of another culture. Fayerweather (1978) reports that receptiveness varies considerably among societies, and the degree to which 'cultural importing' occurs is based on the established cultural pattern of that society.

Despite the complexity of successful cross-cultural management, it is an essential element of international business. The traditional approach of trying to change the expectations and behaviours of the local community must be reversed; it is foreign companies and managers which must adapt. MNEs require cosmopolitan managers capable of translating an understanding of cultural differences into actions which maximise personal and corporate outcomes (Hutton, 1988; Terpstra & David, 1991; Sanyal, 2001).

### *The Economic Environment*

In practical terms, the interdependence of the economic environment and the political environment (below) precludes their separation (Luostarinen & Welch, 1990), however, for conceptual clarity, each is considered individually in this thesis. Movements in the economic conditions of host countries are a major source of concern to MNEs and thus firms need to account for the size and rates of change in various economic and socio-economic factors on an ongoing basis.

Although the economic indicators used by MNEs vary according to each organisation's particular interests (Ronen, 1986), all factors should be observed

as they may suggest corporate opportunity or risk. Such factors include the size of the economy, income levels and distribution, overall and sectoral growth, degree of global integration, external dependence (Robock & Simmonds, 1989), economic philosophy, stage of development, (Nath, 1988), interest rates and commodity prices (Ghoshal, 1995). As well as the above, MNEs need to assess the size of their host's black market economy and the extent of countertrade arrangements (Huszagh & Huszagh, 1991), neither of which are included in published economic data. Generally, non-cash settlements are prevalent in LDCs where holdings of convertible foreign currencies are relatively small (Sundaram & Black, 1995)<sup>12</sup>. Combined, these elements drive a country's exchange rate which, if volatile, will cause unexpected changes in the value of firms in the economy (Lessard & Nohria, 1990)<sup>13</sup>.

The socioeconomic characteristics of a country concern the size, density, geographical dispersement, literacy rates, age and gender distribution of its population (Lee, 1991). Baily and Friedman (1991) report that these indicators assist MNEs in determining the nature of an economy's labour force (skill levels, worker productivity issues, the likelihood of labour unrest, etc.) as well as gauging its market potential (for example, income distribution and consumption patterns).

The economic analysis undertaken by MNEs is more complex than that of their domestic counterparts. Not only are there more economies to contend with, but they are often highly divergent, thus policies designed for the conditions in one economy may be unsuitable for the conditions in another (Prahalad & Doz, 1987). The vulnerability occasioned by exposure to the vagaries of foreign economies requires management to thoroughly appraise a country's economic landscape prior to establishing ventures there (Garland *et al.*, 1990), and

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- <sup>12</sup> i) The black market is not confined to the illicit trade of goods. In countries with exchange control, the illegal sale of foreign currency is common when the official rate is below what it would be with a free rate (Khambata & Ajami, 1992:85).
- ii) Countertrade is the exchange of goods for goods (barter), or transactions in goods and services by other forms of payment in kind which may include some movement of cash (Hibbert, 1997:296). Although traditional barter exchange was simple, and involved a simultaneous transfer of goods being concluded under one contract, modern countertrade is generally more complex, often requiring more than one contract and usually involving dimensions that are not readily apparent (Liesch, 1991:1).
- iii) Cohen and Zysman (1986:41) note that while the full extent of non-cash exchange is not known, it is estimated that it accounts for 20 to 30 per cent of international trade.

- <sup>13</sup> The risk attached to fluctuating exchange rates is termed economic 'exposure' (Lessard & Nohria, 1990:187).

continue such monitoring during the currency of their association (Phatak, 1983). Whilst every MNE is open to some degree of economic risk (Erb, Harvey & Viskanta, 1996), LDCs are generally subject to greater economic instability than developed nations (Casson, 1995) and thus should be accorded even higher levels of scrutiny.

### *The Political Environment*

The political environment of host countries or regions is vital to MNEs as unforeseen shifts in government policies or power structures can pose significant risk to the firm. Political risk is defined by Bartol, Martin, Tein and Matthews (1995:628) as "the probability of political actions resulting in loss of enterprise ownership or significant benefits from conducting business"<sup>14</sup>. Although there is a strong relationship between the volatility of the political climate and the risk faced by foreign corporations (Hill, 1994), politically stable countries may also act to the detriment of MNEs by demanding impositions such as unilateral contract negotiations, joint venture requirements, and increased local value-adding (Shapiro, 1987).

Political risk emanates from two sources: policies occasioned by legitimate governments and actions beyond the control of authorities. Changes in government policies which have deleterious results for MNEs include confiscation, expropriation, nationalisation, domestication (Selvarajah, 1991a), minimum wage laws, discriminatory taxation, restrictions to markets, controls on outputs or imports, currency restrictions, price regulation, demands to provide infrastructure (Hoogvelt & Puxty, 1987), and campaigns against foreign goods (Kobrin, 1982). Politically motivated events over which governments have little control include war, revolution, terrorism, industrial unrest, disruption to operations by hostile groups, and nationalistic suppliers or consumers (de la Torre & Neckar, 1991).

Politically inspired changes, legitimately sanctioned or otherwise, may target all MNEs operating in a country, or may be confined to particular sectors of the economy or certain foreign businesses (Kobrin, 1979). Thus, political actions may affect individual companies differently. Robock and Simmonds (1989)

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<sup>14</sup> Although the term 'political risk' is widely used throughout the literature, Ghoshal (1995:33) argues 'policy risk' is more appropriate as the risk emanates from "policy actions of national governments".



report that while changes affecting all MNEs are more dramatic, selectively targeted changes are more prevalent.

Because management can rarely control political activities (Bartlett & Ghoshal, 1995) and their occurrence can be "fast and furious" (Ronen, 1986:359), MNEs must continually assess the overall political conditions of their host country or region and, where possible, predict the nature of any changes and their potential consequences for the operation. The need for monitoring the political climate is summarised by Garland *et al.* (1990:77–78):

All countries have some element of risk to the foreign investor ... the risk that the MNC faces is immeasurably greater than that faced by the purely domestic firm, for discrimination against foreign investment is virtually a universal trait. ...risk assessment is of strategic importance, and that it must be an ongoing process rather than just an ad hoc project proceeding the initial investment decision.

Notwithstanding the adverse effects discussed above, not all politically motivated intervention results in negative outcomes for MNEs. Robock and Simmonds (1989) cite China, Chile and Canada as countries where political changes have led to an improved environment for foreign companies, and Prahalad and Doz (1987) claim that India's shifting attitudes to MNEs has encouraged considerable off-shore investment.

### *Environmental Assessment and Management*

As the foregoing demonstrates, there is a patent need for MNEs to judge the risks involved in establishing, extending or maintaining operations in foreign countries. Research into risk assessment suggests that management is becoming more aware of its importance: Kobrin (1979:68) found that most managers' risk assessment practices are "general, subjective, and superficial" but 18 years later, Phatak (1997) reports that contemporary international businesses usually take steps to manage or diffuse risk.

The type of information and the level of detail required in forecasting environmental risk is dependent, *inter alia*, on the nature of the host country and the nature of MNEs' business activities (Jain, 1994; Kobrin, 1979). MNEs can use quantitative and/or qualitative approaches to environmental appraisal. Quantitative measures rely on the statistical analysis of historical data from which countries may be compared according to weighted scores of various risk criteria; the firm is then able to determine which scores represent an acceptable level of risk (Dichtl & Koeglmayr, 1986; Green & Korth, 1974; Weiner, 1992). Qualitative systems are based on subjective judgments, and usually rely on the

following approaches: i) 'Grand tours' involving senior managers visiting prospective countries to experience the environment and interview officials; ii) the 'old hands' method whereby external consultants with expertise in the relevant countries are engaged; and iii) the 'Delphi' technique in which a number of experts and internal executives judge the importance of various environmental elements via a complex, interactive process (Rummell & Heenan, 1978; Shrivastava, 1994a). Phatak (1997) argues that each of the systems noted above ignore the fact that nations are not isolated from events beyond their borders, and that country risk evaluation should also account for the possible impact of incidents in the international arena.

Irrespective of the approach used, and the realisation that no prediction can be guaranteed (Vernon & Wells, 1986), systematic environmental analysis is fundamental to managing MNEs. Being aware of the presence, nature and extent of external forces enables management to deal with the environment in a proactive and planned manner. Failure to do so could critically affect the performance of a company (Yip, 1995).

The relationship between MNEs and the external environment is of a reciprocal nature; just as the abovementioned contextual factors influence the operations of MNEs, so MNEs are a determining influence in the environment. International firms are powerful institutions which make a considerable contribution to their host countries. By harnessing the economic and political strength of MNEs, management is able to counter or reduce potential environmental risks or mitigate those which are extant (Donaldson, 1989; Doz, 1979; Dunning, 1981).

According to Sundaram and Black (1995), the 50 largest MNEs hold around US\$3 trillion in global assets of which approximately 40 per cent (US\$1.2 trillion) are located outside their respective home countries, and the annual value of goods and services traded internationally is estimated at US\$4 trillion (nearly 20 per cent of the total world output). The economic might of large MNEs is further evidenced by their annual sales, some of which exceed the GNP of smaller countries<sup>15</sup>. The control of such vast assets and productive capabilities provides MNEs with considerable influence over the macroeconomic climate and policies in both their home and host countries (Alkhafaji, 1995).

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<sup>15</sup> For example, in 1996 General Motors' (GM) sales of US\$168.37 billion (*Forbes*, 1997:218) was larger than the GNP of both Norway (US\$140.5 billion) and Denmark (US\$155.4 billion) (*World Development Report*, 1997), and the individual 1996 sales of GM, Ford, Shell, Exxon and Toyota (*Forbes*, 1997:218) all exceeded Singapore's 1996 GNP (*World Development Report*, 1997).

Besides direct economic power, corporations hold indirect sway over states by virtue of i) their supply of scarce resources such as capital, technology and management skills, and ii) ownership of the processing and distributive abilities required for the exploitation of raw materials and/or the production of goods and services (Gardner & Vambery, 1987). The significance of these contributions to host countries, particularly LDCs, puts MNEs in a strong position when bargaining with governments (Sanyal, 2001).

The extent to which MNEs deploy their direct and indirect influence to gain concessions from host countries or counter the impact of national controls depends on their bargaining strength and that of the respective government (Fagre & Wells, 1987), as well as the prevailing political issues in both the host and home countries (Prahalad & Doz, 1987). Firms may increase their bargaining power by changing (or threatening to change) their business activities, relocating or dispersing operations, withholding new technology, or controlling access to markets. Political pressure may also be exerted by enlisting home country support, developing local allies, sharing ownership with nationals, or influencing local authorities through lobbying (Robock & Simmonds, 1989).

A non-political response to allaying potential losses from environmental changes is insurance against particular contingencies such as expropriation, insurrection, inconvertibility exposure or natural disasters. This not only indemnifies the MNE against financial disadvantage, but also reduces shareholder anxiety about unfamiliar or risky aspects of investing in foreign operations (Paradine, 1996). The cost of cover varies according to the country, the underwriter, and the nature of the risk.

### **Organisation and Management: The Internal Environment**

Porter (1980) and Ghoshal and Bartlett (1990) conclude that harmonious MNE relationships with the external environment rely, in large part, on the alignment of corporate policy and practice with important properties within that environment. Based on the outcomes of environmental analysis, managers in MNEs are able to determine those strategic and operational approaches which are consonant with local conditions. Adjusting the internal aspects of a company to suit its environment may encompass actions such as modifying organisational structure or design (Dunning, 1981), introducing location-specific technology (Alkhafaji, 1995) or revising certain human resources practices (Fombrun,

Tichy & Devanna, 1984). Three organisational issues concerning internal-external congruency are pertinent to this study: the degree of convergence/divergence/crossvergence in management systems, management philosophy, and corporate culture.

### *Convergence, Divergence and Crossvergence*

Peterson's reference to 'universalism and particularism' (noted earlier) alludes to the convergence-divergence-crossvergence debate in the international management literature. Convergence theory emerged in the late 1950s, hypothesising that the common requirements of technology will ultimately force all firms to adopt standardised organisational and management practices. Harbison and Myers (1959:5) propose that "the logic of industrialization [will lead] to uniformity rather than diversity", and Kerr, Dunlop, Harbison and Myers (1960) reason that "the industrialization process is leading societies from many different points ... towards a common future" (1973:8). Haire, Ghiselli and Porter (1966) and Likert (1967) concur. Widing (1973) also supports convergence theory, but contends its potential is not realised because of management's lack of will to implement it. The appeal in pursuing a global management strategy is the synergy available to MNEs from coordinating activities and functions in all countries, as this offers competitive advantage (Wortzel, 1991).

Arguments against the convergence approach are founded on the need for the management of MNEs to satisfy the requirements of the local environment discussed above. Divergence theory holds that individuals within organisations will preserve their culturally defined values and work attitudes irrespective of the advancement of industrialisation or the prevailing economic philosophy (Child, 1981; Hofstede, 1987; Laurent, 1986; Oberg, 1963). Thus, "the divergence hypothesis postulates that the *form* and *content* of functional specialization that develops with growth would vary according to culture" (McGaughey & De Cieri, 1999:237).

Between these polarised views, Adler, Doktor and Redding (1986), Nath (1988) and Dowling *et al.* (1999) believe that convergence and divergence are occurring simultaneously, as does Sparrow, Schuler and Jackson (1994:267) who claim:

there is indeed a convergence in the use of HRM for competitive advantage [but] there are some clear divergences, nuances and specific themes ... that will take the fore and in the way in which specific aspects such as culture, work structuring, performance management and resourcing will be utilized.

Similarly, Ralston, Gustafson, Cheung and Terpstra (1993:257) contend that “neither convergence nor divergence accurately explain the phenomenon”, and suggest an integrative approach termed crossvergence, in which cultural and ideological influences combine to form a distinctive value system. According to Ralston, Holt, Terpstra and Kai-Cheng (1997:183) crossvergence occurs when a person “incorporates both national culture influences and economic ideology influences synergistically to form a unique value system that is different from the value set supported by either national culture or economic ideology”.

The concurrent forces for universalism and particularism emphasise the need for management to establish a balance between global organisational imperatives and responsiveness to the immediate situation. This suggests that management approaches should be pitched at both the macro-environment and the micro-environment. At the macro-level, Farmer and Richman (1965:16–18) claim MNEs have little choice but to adhere to the universal functions of management which ultimately direct organisational structure and technology. They hold that

if a complex, productive enterprise is to continue operating, certain common functions of management must generally be performed regardless of [the nature of] the enterprise ... the basic functions of management are classified as planning (including decision making and innovation), control, organization, staffing, and direction (including supervision, motivation, and leadership). Even poorly managed business firms ... engage in the above basic functions.

Hickson, Hinings, McMillan and Schwitter (1974) also support the rationale of, and need for, functional administration. Ejiofor calls for balance however, and proposes that striving for macro-level symmetry produces deficiencies at the micro-level because it “tend[s] to overlook the effects of multiplicity of cultural, organizational, situational, and individual differences facing management” (Cited in Nzelibe, 1986:7). Schwartz and Saville (1991:57) note that managers who “carry a static mental model of the interaction of the organization with its environment will be at a disadvantage”. Management systems and processes therefore need to accommodate the myriad of micro-level variables which are inherent in the host country environment and, because cultures are not being homogenised (Adler *et al.*, 1986), managers remain caught between the universal, familiar tenets of logic and uniformity, and the uncertainty of diverse, individualised behaviours and social systems.

Despite widespread support in the literature for an appropriate balance of convergence and divergence, the former depends largely on the transfer of management practices and styles from one culture to another. As Teagarden and

Von Glinow (1997:11) note however, the practicalities of such transfer are not easily resolved:

...which dimensions of...management can or should be generalized in cross-cultural settings? Which are or should be locally-specific? Which are or should be company specific, having been integrated into the fabric of the business strategy supported by a strong, idiosyncratic corporate culture? Which emic or culturally-bound challenges inhibit generalizability (Laurent 1983, 1986; Hofstede, 1983, 1984, 1991; Hofstede/Bond 1988; Schneider 1988)? Finally, are there etic or universal, culture-free resolutions to these challenges?

Teagarden and Von Glinow's questions suggest that, while the application of common approaches to management may be possible, the rate and extent to which these may be adopted are contingent upon the strength of the forces driving divergence. Cavusgil and Das (1997) consider the fundamental pressures for divergence emanate from culture, as does Tayeb (1994:429) who notes that

the major strength of cultural perspective as a whole is its recognition of (1) the fact that cultural values and attitudes are different in degree at least, if not in absolute terms in some cases, from one society to another, (2) the fact that different cultural groups behave differently under similar circumstances because of the differences in their underlying values and attitudes, and (3) the important role that culture plays in shaping work organizations and other social institutions.

It may be concluded therefore, that because MNEs are embedded in the cultural dynamics of their host environment, etic assumptions about the management of multinationals are not appropriate. Attempts to generalise management approaches across cultures ignores the strong arguments for divergence discussed above. In contrast, the emic approach, which "see[s] how the natives conceptualize the world" (Ronen, 1986:48), provides the foundations of a management system which avoids parochialism by incorporating dimensions of the local culture. Thus, the ability of MNEs to transfer management practices and styles is a matter of degree which is directed by their particular cultural milieu.

### *Management Philosophy*

Katz (1974) contends that the requisite skills of management are technical, human and conceptual, and notes that the importance of human and conceptual competency increases in proportion to ascendancy in the managerial hierarchy. Human and conceptual abilities are vital in managing MNEs because, as noted earlier, firm performance is dependent on recognising the relationship between the firm and its environment (conceptual skills), and understanding and influencing those of other cultures (human skills). According to Wills and Barham, conceptual and human skills are not acquired vicariously, rather they emanate from "a deeper core competence of the individuals' essential nature or

identity” (1994:43). Citing prior works by Chowdhry and Pal (1960) and Pugh (1963), Negandhi and Prasad (1971) contend that the personal characteristics of managers is an essential element in organisational outcomes. Perlmutter (1995) categorises MNEs as ethnocentric, polycentric and geocentric<sup>16</sup> in their outlook, and in doing so, considers the managerial states of mind which foster these corporate orientations. The common thread of these studies is their consideration of management’s disposition towards the various entities with whom the MNE deals. This theme is reflected in Negandhi and Prasad’s (1971:22) definition of management philosophy<sup>17</sup>: “the expressed and implied attitude of the managers of an organization towards its consumers, employees, suppliers and distributors, the government, the community, and the workers’ organizations”.

Several issues emerge from the literature concerning management philosophy. Firstly, the philosophies held by managers are critical in the global economy “since the business philosophy of a country depends...upon the values held by those in management” (Ralston *et al.*, 1993:270). Secondly, management philosophy is considered to be an important variable in successfully managing MNEs (Bigelow, 1994; Erez, 1986; Fatehi, 1996; Hibbert, 1997). Thirdly, the cultural conditioning to which individual managers are exposed results in the ideologies which drive their thought and behaviour being culturally defined and culturally bound (Ali *et al.*, 1995; Harris & Moran, 1996; Kelly & Worthley, 1981; Mamman & Richards, 1996). Fourthly, research in the area appears to be dominated by comparative studies which seek to identify similarities and differences between the philosophical orientation of managers from diverse cultural backgrounds (see, for example, Brooks, 1995; Harrison, 1994; Matthews 1995; Schwind & Peterson 1985; Whitely & England, 1977). Finally, the relative importance of management philosophy and environmental factors in management effectiveness is unclear and may vary from country to country (Ronen, 1986).

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<sup>16</sup> Ethnocentrism refers to a home-country orientation, polycentrism refers to a host-country orientation, and geocentrism refers to a world orientation. Perlmutter subsequently added a further attitudinal dimension: regiocentrism, which refers to a regional orientation (Heenan & Perlmutter, 1979:20).

<sup>17</sup> In this thesis, ‘management philosophy’ is a generic term which encompasses those personal characteristics which various writers believe influence a manager’s perception and outcomes of various facets of his/her work. Individual commentators emphasise different characteristics; for example, attitudes (Ronen, 1986), beliefs (Humble *et al.*, 1994), values (England & Lee, 1974; Ralston *et al.*, 1993) and patterns of logic (Maruyama, 1994). Following Negandhi and Prasad (1971), this thesis uses the label ‘management philosophy’; other terms in use are ‘managerial mind-set’ (Kobrin, 1994), ‘management mindscape’ (Maruyama, 1994) and ‘executive traits’ (American Society for Training and Development, cited in Beamish *et al.*, 1994).

Sustaining Negandhi and Prasad's proposal (above) that management philosophy is reflected in executives' attitudes towards those with whom their firms interact, Phatak (1997:350) argues that an essential quality for international managers is

a personal philosophy that accepts value differences in other people and the ability to understand the inner logic and rationale of other people's way of life. He [sic] must be tolerant towards foreign cultural patterns and avoid judging others by his own values and criteria.

Phatak goes on to note however, that a philosophy appropriate to international management is a difficult characteristic to identify. Generally, one can only infer its presence (or absence) from personal and social traits such as tolerance, flexibility, adaptability (Knotts, 1989), open-mindedness (Schwartz & Saville, 1991), patience, prudence (Heller, 1980), emotional stability and maturity (Phatak, 1997), and the ability to consider and resolve value dilemmas (Anderson, 1997). Evidence of these characteristics in senior managers implies they possess the cultural interpretation and adaption abilities which are a prerequisite to international management<sup>18</sup> (Morden, 1995).

Although the personal attributes listed above may be considered as indicators of an appropriate managerial philosophy, the identification of those attributes appears to be problematical for MNEs. Ioannou (1995:55) found that

Only eight out of the 52 companies [in her research] bother to identify the well-known core personality traits and competencies that make for successful expatriates. Instead, they select people wholly on the technical requirements of the job and the immediate business needs of the company. Yet half of all managers posted abroad fail, and 80 percent of those are due to the inability of the manager ... to adjust to the new culture.

Ioannou then proposes that the success of expatriate managers would be enhanced by submitting candidates to psychological tests to determine whether they have the inherent abilities to adjust to a new culture and to operate effectively within it. Notwithstanding, Dowling *et al.* (1999), citing Torbiörn (1982), Willis (1984) and Sparrow and Hiltrop (1994), warn that the reliability, validity and use of such tests are subject to considerable debate.

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<sup>18</sup> The philosophical perspectives of managers is not the sole determinant of their success in international assignments. Other organisational and personal factors which impact on the management of MNEs include assignment length, cultural similarity, job complexity and responsibility, managers' technical, administrative and leadership competence, relational and language abilities, skills to cope with environmental variables, commitment to the international mission, fit with career development stage, and an amenable family situation (Arthur & Bennett, 1995; Black, Gregersen & Mendenhall, 1992; Mendenhall & Oddou, 1985; Shaffer & Harrison, 1998; Tung, 1981). As these issues were not investigated as determining variables in the case under review, they are not pursued in this thesis.



The question of management philosophy is conceptually and practically difficult. Whilst there is a “reasonably strong relationship between the level of success achieved by managers and their personal values” (England & Lee, 1974:418), understanding the nature of that relationship is complex, as is identifying and describing the manner in which certain values and attitudes are important to international management. In broad terms, it seems the attributes required of MNE executives are those which combine to produce an awareness of culture and of self (Beamish *et al.*, 1994). Cultural awareness is perceiving how another culture affects one’s own behaviour, while self awareness is perceiving how one’s native culture affects his or her behaviour. In this way, managers are able to move towards thinking in global terms about people and resources.

### *Organisational Culture*

Cultural influences on MNEs are not restricted to those emanating from the host country environment; firm performance is affected by culture at both the national<sup>19</sup> and organisational level (Terpstra & David, 1991). Whereas national culture refers to the people and places *in* which managers conduct business, organisational culture is the base *from* which managers operate<sup>20</sup> (Harris & Moran, 1996:70). Siehl and Martin describe organisational culture as “the glue that holds an organisation together through a sharing of ... values, beliefs, and expectations” (cited in Martin, 1992:54). In simple terms, a company’s culture defines “the way we do things around here” (Bower, cited in Bolman & Deal, 1991:268), and embraces such matters as the structure and design of the organisation, work practices, corporate policy, planning and decision making, management and employee behaviour, conflict resolution, formal and informal communication patterns, company folklore, and the like (Brown, Derr, Renn & White, 1993; Deal & Kennedy, 1982; Schein, 1990).

Organisational culture is moulded by two previously discussed forces: the external environment in which it operates, and management philosophy.

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<sup>19</sup> ‘National’ culture refers to the collective character of groups within a given geographic area; that is, the cultural component of the external environment discussed previously. Hofstede (1980) notes the vagueness of the term, but also acknowledges the absence of more precise description (cited in Bartlett & Ghoshal, 1995).

<sup>20</sup> Corporate culture is developed, perpetuated and manipulated by management. This is particularly evident when new organisations are established, and the founder’s ideals and visions imbue the organisation with a particular ‘personality’. Thereafter, successive managers tend to interpret their role as that of continuing and reinforcing the original culture (Deal & Kennedy, 1982; Doktor, 1990; Peters & Waterman, 1982; Schein, 1985).

National and corporate cultures are inextricably linked and impact on one another (Parkhe, 1995). For domestic firms, synergy with the wider environment is somewhat taken for granted as their cultures are largely a reflection of the domestic culture (Terpstra & David, 1991). For MNEs however, organisational culture is determined by the national cultures of both the home country and the host country or countries (Al-Shammari, 1994), and therefore the management of foreign companies need to modify internal operations “to value the giving of due consideration to the host cultures in all decisions and operations” (Maddox, 1993:72). Because the most effective means of changing organisational culture is via management intervention (Deal & Kennedy, 1982), it follows that executives must place high value on cultural congruency in the first place. The influence of management philosophy on firms’ internal culture is reflected in Redding and Ng’s observation that an organisation is “an ideological system pursuant to the mindset of the managers in charge” (cited in Fuller & Peterson, 1992:193). Laurent (1986:92) is more pragmatic, noting that managers “hold particular sets of assumptions, ideas, beliefs, preferences and values [which] get translated into particular policies, systems and practices”.

Traditional views of organisational culture espouse an integrative perspective whereby management devises and maintains particular cultural codes as a means of control (Harris & Hartman, 1992; Schneider, 1991). The logic of this model is that organisational effectiveness is optimised by the consistency, consensus and clarity prescribed by the corporate culture (Martin, 1992). Whilst applicable to domestic firms where the national and corporate cultures are homogenous, this approach may not work for MNEs as home country perspectives are often incongruent with prevailing national cultures (Schlesinger, Sathé, Schlesinger & Kotter, 1992). Prahalad and Doz (1987) also advocate the need for MNEs to abandon the pursuit of an integrated corporate culture in favour of aiming for differentiated approaches which can simultaneously accommodate the global coordination and local responsiveness noted in the prior discussion of convergence.

The conceptually simple duality espoused by Prahalad and Doz presents various practical barriers to developing a suitable organisational culture, however. Firstly, as cultural differences are not restricted to political borders, the culture of the host society may not align with the culture of the host country. Where cultural differences between local and national communities exist, an MNE may have opposing criteria upon which to model the culture of a subsidiary. This is

particularly difficult where a company is bound by national laws and economic imperatives which run counter to local ideologies. Secondly, 'ecological fallacy' needs to be overcome. This is the tendency to project cultural values known to be held by a group onto an individual who is a member of that group (Glick & Roberts, 1984; Richards, Gottfredson & Gottfredson, 1990). Management needs to recognise that cultural homogeneity is not an absolute; there are those who hold different perspectives than the general population, and this must be accounted for in the development of corporate culture. Thirdly, communities which accept or foster racism are invariably incongruent with the corporate culture of Western MNEs. Whereas international firms are adopting a geocentric orientation which "do[es] not equate superiority with nationality" (Perlmutter, 1995:8), "racial and national discrimination [exists] in varying degrees in most ... societies" (Kerr *et al.*, 1973:98). On this issue, it seems that reconciliation between local and organisational culture could be a long, if not impossible, process. Fourthly, having identified the need to adapt a firm's culture to its environment, management has the problem of implementing the necessary changes. Because people are resistant to cultural change (Hannagan, 1995), orchestrating a shift in an organisation's culture involves planning and executing the difficult task of modifying often deeply held attitudes and values (Martin, 1992).

National and organisational cultures do not have equal influence on individuals' behaviour. Because cultural conditioning is mostly absorbed unconsciously from an early age (Hall & Hall, 1990; Namenwirth & Weber, 1987) and people today appear to be increasingly "holding tightly to the deeper values of their culture" (Maddox, 1993:12), national culture is virtually retained for life (Terpstra & David, 1991). Organisational culture is not so immutable; it is assimilated at a more conscious level and may be acquired or dismissed at will, as Hofstede (1991:18) observes:

An organization is a social system of a different nature than a nation; if only because the organization's members usually [have] a certain influence in their decision to join it, and are only involved in it during working hours, and may one day leave it again.

Because participation and the level of immersion in a firm's culture is a matter of personal choice, national culture generally prevails when an individual perceives that the two are in conflict (Laurent, 1986; Weber, Shenkar & Revah, 1996).

Despite the difficulties associated with the incorporation of the host country culture within vital elements of the MNE corporate culture, Fatehi (1996:158–159) holds that success is largely possible through 'constructive neutrality':

Although cultural adaption to national cultures is axiomatic, no direct, one-to-one correlations between the MNC's corporate culture and host country cultures is conceivable. Instead of seeking intimate identification with the host cultures, it is practical to aim for the avoidance of cultural incompatibility. Therefore a more realistic expectation is to achieve a certain degree of compatibility, or constructive neutrality, with the host country cultures ... constructive neutrality is a positive system of principles and norms to guide the decision-making processes of an MNC's entities and affiliates to avoid or minimise clashes with its various national environments, and to facilitate optimal involvement and participation of the company in the productive system of its host country.

Given that complete congruence between host country and organisational cultures is not possible, MNE management must have the flexibility and will to adjust sensitive facets of the internal culture to suit the cultural systems of the host society. Instituting an appropriate corporate climate cannot be achieved by modeling it on an 'either/or' choice between host and parent country cultures, rather it should be a blended system which maximises the benefits and minimises the costs of each (Al-Shammari, 1994). Pursuing differentiation entails compromise, innovation, the abandonment of ethnocentrism, and political neutrality (Kolde, 1985). Ultimately, the extent and process of developing the desired organisational culture is a matter of degrees which is determined by the surrounding culture (Alkhafaji, 1995).

### **Theoretical Perspectives of the Relationship between Multinational Enterprises and the Environment**

The relationship between organisational forms and actions and external conditions has been the subject of considerable research (Katz & Kahn, 1978). Although MNEs have not been the primary focus in the development of organisation theory, the knowledge which has emerged therefrom is significant in informing the field of international management (Bartlett, Doz & Hedlund, 1990; Ghoshal & Westney, 1993). The following reviews four models which make a notable contribution to understanding MNEs.

*Institutionalisation theory* is founded on Selznick's (1957) concept that organisations respond to societal pressures. Accordingly, organisations adopt structures, practices and processes through which they might achieve isomorphism with their institutional environment, thereby gaining the legitimacy they need in order to succeed (Scott, 1987; Zucker, 1988). That is, organisations react to external institutional elements in order to receive societal approval and resources consonant with the values which society accords the organisation or its outputs. DiMaggio and Powell (1983) identify three mechanisms which drive isomorphic change: (i) coercive isomorphism, which results from formal and informal pressures exerted by other organisations,

cultural expectations, and authorities; (ii) mimetic isomorphism, whereby organisations model themselves on other organisations; and (iii) normative isomorphism, where organisations embrace patterns arising from the sharing of similar professions. The institutional perspective thus rejects the premise that organisations follow rational models, rather it emphasises the influence which social and cultural pressures exert on organisations to comply with prevailing conventions (Meyer & Rowan, 1977). For MNEs, the increased need for local responsiveness proposed by Prahalad and Doz (1987) translates into greater local isomorphism.

*Population ecology theory* (PET) applies to populations of organisations as opposed to particular organisational units, and is concerned with determining why some organisations survive and others do not. Conceived on the premises of Darwinism, the theory postulates that organisations involved in similar activities constitute organisational groups (populations). As these populations can sustain only a limited number of organisations, competition between them leads to the extinction of some organisations (hence the paradigm is also termed ‘natural selection theory’ and ‘environmental determination theory’). The continued participation of an organisation within its population is dependent upon its capacity to adapt its structure to the characteristics of the environment. Under conditions of uncertainty or rapid change, severe internal and external constraints are placed on the organisation’s capacity to effect this adaption. This situation is termed ‘structural inertia’, which results in organisations becoming uncompetitive and being forced out of the population (Aldrich, 1979; Hannan & Freeman, 1977). Barney and Hesterley’s (1996:115) suggestion that this theory is “a somewhat under-developed appreciation for the complexity of the modern firm” may be relevant in its application to MNEs, as it is a “model of organization in which its design, functioning and development are treated as the direct outcomes of universal and immanent forces which cannot be influenced ...through strategic action” (Reed, 1996:39). By focusing on reactive adaption, population ecology theory proposes that management, in either domestic or multinational companies, can have little substantive impact on their wider surroundings.

*Resource dependence theory* claims that organisations are not self-sufficient and are therefore forced to exchange with the environment. As the environment provides the scarce and valuable resources upon which they depend, organisations are vulnerable to the vagaries of external entities. This theory emphasises the power relationship between the organisation and externalities

which, by virtue of their control of resources, have the potential power to control the organisation. Accordingly, management takes a proactive approach to manipulating the environment in order to secure more favourable terms of exchange and minimise the organisation's environmental dependence (Child, 1997; Pfeffer & Salancik, 1978). Given the strategic importance of the relationship between MNEs and their environments (Doz, Prahalad & Hamel, 1990), the resource dependency model is instructive as it views organisations

[as] capable of changing, as well as responding to, the environment. Administrators manage their environments as well as their organizations, and the former activity may be as important, or even more important, than the latter (Aldrich & Pfeffer, 1976, cited in Scott, 1987:111).

While the three theoretical perspectives discussed above focus on the interaction between the environment and the structure, behaviour and survival of organisations, each is based on divergent philosophical foundations and places a different emphasis on the nature of the environment–organisation connection. Institutional theory concerns the political and cultural actions through which stakeholders' interests are institutionally enacted to advance particular organisational forms, population ecology theory considers competitive forces as the key determinant of organisational systems, and resource dependence theory emphasises power relationships in the configuration of organisations.

The *resource-based view of organisations* does not account for the benefits and disturbances which arise from organisations' relationship with exogenous elements. This theory holds that a company's ability to devise and achieve competitive advantage turns on its endogenous resources and capabilities which are considered strategic assets. These assets include the organisation's financial, physical, organisational and human resources. For an organisation's internal assets to generate competitive advantage, they must (i) provide the organisation with the ability to capitalise on opportunities in the environment (or mitigate threats); (ii) be unique among the organisation's competitors; (iii) be difficult or costly to imitate; and (iv) have no precise substitutes. The implications for MNEs and domestic companies therefore, is management's need for corporate introspection so as to recognise and maximise those resources and capabilities which meet the four criteria listed (Barney, 1991).

Several issues emerge from the foregoing review of theories which seek to explain the form and structure of organisations. Firstly, there is considerable emphasis on the reciprocity of the organisation–environment nexus: just as external forces influence the characteristics of organisations, the internal

arrangements of organisations affect the environment. Second, organisations are not completely subject to the caprice of the contexts in which they operate. Thirdly, the competing approaches espoused by the theories highlights the inadequacy of one particular view in explaining the interaction of organisations and their environments. To reveal the manner in which MNEs' complex internal and external elements permeate one another, a combination of paradigms is necessary. This requirement is emphasised in Parker's (1996:501) summary of prior calls for conceptual integration in this field of inquiry:

One particular demand is for more interdisciplinary research (Dunning 1989; Inkpen and Beamish 1994), and Dunning (1993) warns that future scholars will reach their full potential only by combining the knowledge of disciplinary scholarship with insights provided by other disciplines. Multinational organizations are believed to have developed beyond the relevance and legitimacy of single academic disciplines to explain them (Sundaram and Black, 1992).

### **ENVIRONMENTAL CONGRUENCY AND MULTINATIONAL ENTERPRISES**

The contrasting perspectives of the relationship between organisations and their contexts are highlighted in the varying emphases of the above models; whereas some propose that organisations adopt forms and structures in response to external demands, others suggest that organisations' characteristics define the environmental domain in which they operate. Despite this distinction however, both paradigms recognise the tenets of environmental congruency which holds that the alignment between an organisation's internal and external constituents has a direct bearing on its effectiveness (Burns & Stalker, 1961; Galbraith, 1974; Lawrence & Lorsch, 1967; Thompson, 1967<sup>21</sup>). Bowden (1985:51) considers the achievement of fit to be an "integral part of the firm's process of management", reporting that the match between an organisation's particular competences and the environment in which it operates is the key aspect of the strategic process. Applying this principle to international human resource management (IHRM), Milliman, Von Glinow and Nathan (1991:320) underscore the significance of congruence in the management of MNEs:

In terms of the external fit, a central purpose of IHRM practices is to facilitate effective cross-cultural interaction... MNCs must deal not only with the cross-cultural environment, but also with the cross-national environment...of various foreign countries in which they operate...

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<sup>21</sup> These authorities have identified environmental uncertainty as a major threat to organisational effectiveness, and have proposed various approaches to reduce the impact of external conditions: encouraging more flexible approaches to management (Burns & Stalker, 1961); adapting organisational structures to provide for more specialised units (Lawrence & Lorsch, 1967); improving coordination and control systems (Thompson, 1967); and enhancing organisations' ability to process information (Galbraith, 1974). Such changes are designed to improve organisations' interaction with the environment, and to expedite responsiveness to changes therein.

Davis, Kerr and Von Glinow (1987:488) also advocate environmental fit, but warn against “merely grafting [foreign systems] onto incongruent cultures and structures”. They reason that effective alignment between MNEs and their surroundings results from an “integrated syndrome of congruent practices”, which requires a process of synthesising societal influences, organisational features and management practices.

Notwithstanding the above, environmental congruency alone may not be sufficient in the pursuit of firm performance. Milliman *et al.* (1991:320) claim that while fit between an organization and its environment is assumed to result in enhanced organizational effectiveness, “fit does not necessarily guarantee organizational success, and that organizations can sometimes achieve effectiveness without it”. Lengnick-Hall and Lengnick-Hall (1988:460) propose that flexibility is the essential ingredient, contending that “maximising fit can be counterproductive if...the firm has adopted conflicting competitive goals to correspond to a complex competitive environment”. Wright and Snell (1998:757) argue that both fit and flexibility are important as each focuses on different aspects of the organisation. They note that

One can view fit as a state that exists at some point in time...that has both internal and external components. Because fit deals with relationships among some set of dynamic contingent constructs, it can only be assessed as a snapshot: fit at time 1 in no way guarantees fit at time 2.

Flexibility, however, is not a temporary state, but an actual characteristic of an organization... In contrast to fit's focus on an interface of two variables – one internal and one external – flexibility is purely internal...that enable a firm to adapt to some change in the environment.

Wright and Snell's complementary view of fit and flexibility suggests that congruence is fluid rather than fixed, and thus sustained environmental alignment is dependent upon dynamic organisational characteristics and strategies. This approach accords with Boxall's proposal that “we need to define fit in a more dynamic fashion: an organisation is effective to the extent that it achieves fit in a succession of different environments” (1992:69).

## **THE BUSINESS ENVIRONMENT IN LESS DEVELOPED COUNTRIES**

Although the understanding of, and adaption to, local environmental conditions are universal imperatives for MNEs, firms located in the developing world face particular issues which are not typically present in industrialised nations. This section identifies the general characteristics of emerging economies, and



examines the implications these have for international business and the operations of MNEs.

### **The Nature of Less Developed Countries**

Of the world's estimated 5.5 billion people, around 80 per cent live in LDCs (Postel, 1994). These nations generate only 20 per cent of world output and, with the exception of NICs and some oil exporting countries, their economic growth is generally much slower than that of the industrialised world (*World Development Report*, 1997).

Because the world economy is not homogeneous, it is grouped according to two major economic divisions: DCs composed of the industrialised economies, and LDCs composed of underdeveloped or emerging economies (Casson, 1995). In reality, the degrees of economic development are not as clearly differentiated as these two labels imply, and there is no defined point at which a country moves from one category to another. Several measures are used to classify states according to their relative wealth, including mean income, adequacy of food supply, average life expectancy, average level of education, and gross national product (GNP) per capita (Simpson, 1988; Todaro, 1994).

Using GNP per capita, the World Bank ranks countries into four bands. DCs, with GNP/capita above A\$17,800 (US\$11,570), are listed in the 'top' band, and emerging economies constitute the lower three bands as follows. Band 3: upper-middle income LDCs with an average GNP/ capita of A\$6,400 (US\$4,160), band 2: lower-middle income LDCs with an average GNP/capita of A\$2,200 (US\$1,430); and band 1: low-income LDCs with GNP/capita of A\$500 (US\$325) or less (*World Development Report*, 1997).

Alkhafaji (1995) notes that industrial structures have also been proposed as a means to distinguish between the degree of economic development among LDCs. Four classes are identified:

- i) *Subsistence economies*, where the majority are engaged in simple agriculture. People consume all their output and barter for goods and services.
- ii) *Raw material exporting economies* are rich in natural resources, but are poor in other respects. Most external revenue is gained from resource exports.
- iii) *Industrialising economies*, where manufacturing accounts for 10 to 20 per cent of GNP. These countries have a middle class which demands services and consumer goods.

iv) *Industrial economies* which are major exporters of manufactured goods and investment funds. These are the NICs noted previously.

It can be seen that this approach produces a similar hierarchy to the World Bank classification, but it also incorporates an insight into socioeconomic conditions.

While there is no single, defining factor by which to identify the economic development of nations (Simpson, 1988), the various schemes in use demonstrate the existence of an international scale of development. This continuum, irrespective of how it is measured, is a vital instrument for MNE managers as it serves as an indicator of the possible business conditions which may prevail from country to country.

### *The Heterogeneity of Less Developed Countries*

The monetary, industrial and social indicators noted above emphasise the relative or absolute poverty and the general lack of economic development which is universal to the emerging nations as a group. This common quality does not suggest that LDCs are homogeneous, however. Individually, LDCs differ widely in political systems, economic ideologies and policies, and social characteristics (Hoogvelt, 1991). The causes of each country's economic ills are as equally diverse, but may be ascribed to any or all of the following elements which highlight their heterogeneity yet typify their economic deprivation. Incomes are low and unevenly distributed, resulting in a vast poor population with small middle and wealthy classes. High productivity and incomes are concentrated in certain locations while other areas suffer from little economic development (regional dualism). Malnutrition, health disorders, high mortality rates, rapid population growth, and low levels of literacy are symptomatic of the widespread poverty and insufficient educational facilities. Political instability, large foreign debt, high dependence on a few export products and low rates of saving leave the economy excessively vulnerable to detrimental external forces. Labour markets are plagued by high unemployment and underemployment, with much of the working population earning a living in relatively unproductive sectors such as subsistence farming. Where modern technology is in use, it is generally confined to certain sectors while other industries and services rely on primitive equipment and processes (technological dualism). Finally, the topography of emerging countries is often inhospitable; many are located in regions with a preponderance of deserts, mountains and/or tropical forests (Arnold, 1988; Brown, 1994; Casson, 1995; Donaldson, 1989; French, 1994; Harris, 1986; Hibbert, 1997; Hoogvelt, 1991).

### *Less Developed Countries and External Intervention*

Historically, the benefits arising from international commerce has been biased in favour of industrially and militarily advanced nations. The patterns of trade in colonial empires were typified by government sanctioned firms which manipulated LDCs' governance, human capital and natural resources for the economic and military advantage of the home country (Ansprenger, 1989; Arnold, 1988). Exemplary of this practice was Britain's involvement in India (Krishnan-Katty, 1985), and the domination of the African continent by various European nations (Lanning & Mueller, 1979). Whilst limited benefits accrued to the host country, many profiteers exploited the indigenous people, often conscripting them to work in poor conditions or selling them to the slave trade (Parry, 1971).

In the aftermath of World War I (WWI), imperialism began to decline as colonies began to seek partial or complete separation from their respective 'mother' countries. As well as political sovereignty, these countries aspired to economic and industrial modernisation, often inspired by nationalist leaders and/or revolutionary intellectuals (Kerr *et al.*, 1973). This trend accelerated after WWII, as countries throughout Africa, Asia and the Middle East achieved formal independence (Connor, 1971; Hutton, 1988). For many 'new' states however, the road to prosperity has been tortuous:

Emancipation from alien rule was accompanied by a growing political consciousness within these countries and by demands for modernization and progress. They entered political independence with a backlog of deep poverty, with little accumulated capital or experience of industrialization, and with only a vague understanding of the complexities of rapid change in their societies and economies. Many considered political independence and economic development synonymous, unaware of the long and slow process by which the power and affluence of the industrialised countries had been reached (*Report of the Commission on International Development*, 1970:25-26).

Today, many of the countries which had previously restrained the progress of LDCs are actively attempting to address the imbalance between industrialised and developing nations. Regrettably, their efforts to alleviate economic disadvantage and human suffering through transfers of technology and massive injections of funds<sup>22</sup> have had minimal impact (Baily & Friedman, 1991). The income gap between the First and Third Worlds continues to increase (Pritchett, 1996). This disparity is exacerbated by many of the economic and social difficulties noted above, as well as the environmental degradation associated

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<sup>22</sup> Austin (1990:20) reports that official sources provide 56 per cent of net flows to LDCs: 31 per cent from government-to-government bilateral aid, 4 per cent from OPEC bilateral aid, and 21 per cent from multilateral agencies such as the World Bank.

with industrialisation (Postel, 1994), rampant urbanisation (Wahba, 1996), and the uneven distribution of foreign investment among LDCs (Bergsman & Shen, 1995).

### **Multinational Enterprises and Less Developed Countries**

Despite the mutual benefits which flow from the involvement of international business in emerging economies, the co-existence of MNEs and developing countries is not always harmonious. Based on ideological differences and a general lack of trust about the motivations and methods of foreign firms, government policy and unofficial agitation in LDCs can present MNEs with a difficult, and sometimes hostile, operating environment.

#### *The Rationale for Multinational Enterprises Investing in Less Developed Countries*

Although approximately two-thirds of MNE subsidiaries are located in developed nations (Phatak, 1997; Vernon & Wells, 1986), the volume of foreign investment in many developing economies is increasing steadily (Mockler & Dologite, 1997). By locating subsidiaries in LDCs, advantages accrue to all major stakeholders: the investing MNE, the host country, and the country from which the firm originates. These are considered below<sup>23</sup>.

The primary benefit which MNEs gain by establishing in LDCs is access to the vast populations of these countries. The people of emerging economies constitute the world's largest bloc of buyers, suppliers, competitors, and users of capital. As buyers, LDCs account for over one quarter of the world's imports, 60 per cent of which are supplied by developed countries. This consumption pattern will increase as both the population and economies of LDCs are expanding at a faster rate than those in the First World<sup>24</sup>. As suppliers, LDCs represent 28 per cent of world exports, with 70 per cent of their sales made to the developed world and 30 per cent to other LDCs. The industrialised nations depend on LDCs for about 28 per cent of their total international purchases. As competitors, over recent years LDCs have

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<sup>23</sup> This discussion is limited to the pragmatic reasons for MNEs operating in LDCs. It is recognised that offshore investment also rests on various economic theories (for example, Monopolistic advantage, Product and factor market imperfections, and International product life cycle), however economic theories of development are beyond the scope of this thesis which is primarily focused on international management.

<sup>24</sup> Brown (1996:13) reports that the economic growth of LDCs (in aggregate) stands at 6 per cent which is approximately 2.5 per cent higher than the developed world. The spread of this progress is extremely uneven however, with many LDCs experiencing negative growth.

consistently gained competitive advantage in labour intensive industries, capturing market shares from producers based in developed countries. This phenomenon does not rely solely on the expansion of MNEs, as indigenous LDC firms have become significant players in the marketplace. The growing competitiveness of LDC companies has resulted in MNEs entering various strategic alliances (e.g. joint ventures) which have been positive for both parties. As capital users, subsidiaries in LDCs generally provide more favourable rates of return to firms than do their domestic operations (Austin, 1990; Jones, 1995; Mockler & Dologite, 1997; Porter, 1990).

For host LDCs, the advantage of MNE participation in their economies is the promotion of local self-sufficiency through improvements to their stock of economic and human capital (Najafbagy, 1985). Apart from the immediate advantages of direct investment and employment opportunities, MNEs promote the formation of local capital by (i) breeding confidence among other foreign investors looking for a suitable location, (ii) utilising service industries to meet the various external needs of the firm (banks, accounting firms, advertising agencies, etc), and (iii) requiring extended and/or improved infrastructure facilities (Jain & Puri, 1984).

Also important to LDCs is the significant contribution MNEs make to export earnings. These revenues are vital as they generate the hard currencies required to purchase goods, services and technologies from industrialised countries (Hibbert, 1997), as well as to service foreign debt (Beamish, 1988). The inefficiencies inherent in most areas of LDC economies are ameliorated when MNEs enter a given sector and introduce more sophisticated technology, management expertise and work practices (Dunning, 1993; LaPalombara & Blank, 1984).

Notwithstanding the above, many LDCs resist the involvement of MNEs in their economies for a wide range of reasons. These are investigated on subsequent pages.

The majority of governments in developed nations have long encouraged domestic firms to invest in LDCs by providing incentives such as favourable tax and trade policies and assisted loans. The logic of these schemes is listed by Franko (1987) as: (i) the GNP of the home country is enhanced by profits repatriated by their MNEs, (ii) the home country's export opportunities are expanded by economic growth in LDCs and increased access to LDC export

markets, (iii) preferential access to raw materials is often granted to the MNE's home country, (iv) the home country is able to shed labour intensive industries with declining comparative advantage in times of labour shortages, excessive dependence on foreign workers, and inflationary pressures, and (v) the service of humanitarian goals.

Home country support for MNE investment in LDCs is not universal, however. Many trade unions, business people and politicians perceive that by promoting these schemes, the government is acting to the detriment of the local economy. This argument usually turns on issues such as domestic employment, reducing balance of payments deficits, promoting infant industries, economic independence and national security (Krugman, 1995). The social responsibility of MNEs towards LDCs is also queried by some home country individuals and groups (see, for example, Simpson, 1988; Starke (Ed.), 1994).

The incidence of LDC governments promoting investment in other emerging economies is also increasing, particularly among the least advanced countries in Africa, Latin America and Asia (Dunning, 1993). Support for this development is reflected in APEC's<sup>25</sup> goal to establish free trade between its developing members by 2020 (Mahbubani, 1997).

#### *The Relationship between Multinational Enterprises and Less Developed Countries*

The foregoing demonstrates that MNEs have the potential to facilitate the economic progress to which the world aspires. Casson (1995) notes that for LDCs in particular, the emerging global coalition of MNEs may be their only promise of relative prosperity. An earlier observation by Bhatt and Jain supports Casson's view:

Whatever may be said against MNEs, no institution is better equipped to deal with the massive problems of poverty, hunger, and ignorance in [LDCs]. With their capital resources, technology, and managerial capabilities, MNEs are in a position to undertake the arduous task of eliminating economic backwardness... On human grounds, too, given the advent of modern knowledge and technology, it is not an unrealistic goal to abolish misery and squalor worldwide (1984:157).

This reasoning has not galvanised universal support among LDCs however. Individual states vary widely in how they perceive the presence of MNEs within

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<sup>25</sup> APEC (Asia Pacific Economic Cooperation) was formed in 1988 to bring together partners from multiple continents. Its current constituents are Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, South Korea, Taiwan, Thailand, and U.S.A.

their boundaries; some actively seek overseas investment, while others remain hostile or indifferent to foreign companies.

Those LDC governments which view foreign multinationals as an integral component in the process of development invariably devise policies designed to simultaneously attract MNE participation in their economy and to allay investor concern about political and economic risk. These policies typically incorporate 'service packages' which include incentives like tax relief, import protection, rebates during establishment periods, financial inducements, administrative facilities, guarantees of non-discriminatory application of the law, protection against expropriation, and informational support (Caves, 1982; Jain & Puri, 1984).

For other LDCs, the desirability of foreign involvement in their economy is counterbalanced with an ingrained mistrust of MNEs which have, in the past, acted callously towards their hosts (Arnold, 1988; Turner, 1973). According to Garland *et al.* (1990), the fundamental objection to MNEs turns on a perceived incompatibility of the national goals of LDCs and those of foreign firms. This view is sustained by Gabriel (1972) who contends that, because the basic orientation of any MNE is that of making profit, managerial decisions *must* be more concerned with the bottom line and international strategy than they are with the social and economic needs of the host country. Examination of the specific elements of this argument are instructive in understanding many LDCs' ambivalence towards MNEs:

- The promise of local employment does not always meet the expectations of the host country. This is the result of MNEs' tendency towards ethnocentrism in their relations with subsidiaries in LDCs (Perlmutter, 1995) and/or the use of advanced technology (Brooke, 1986).
- Governments fear that the significant resource and technical advantages of MNEs may drive local firms out of business (Vernon & Wells, 1986).
- LDCs are concerned that they may become too dependent on MNEs for imports of expertise, technology, and other resources critical to continued growth. This dependence gives foreign companies significant political power over government policy and operations (Hoogvelt, 1982), and may doom the country to remaining a factor-driven economy (Porter, 1990).
- Bornschier (1984) argues that the presence of MNEs in any economy is a significant factor in the inequality of income distribution. He contends that this is more pronounced in LDCs because of MNE impact on land tenure, power distribution in the labour market, and state-corporate relationships.

- Excessive repatriation of profits by some foreign multinationals has diverted resources away from local development (Paul & Barbato, 1985).
- MNEs have been accused of acting as one-way conduits of political behests. Emmanuel (1984:107) claims that “certain legal prohibitions may be conveyed from the parent company to the subsidiary, but not vice versa”<sup>26</sup>.
- Legislated social responsibility is generally less stringent in LDCs than it is in developed countries. As a result, MNEs may be less concerned with various human issues, particularly those regarding the natural environment and employee health and safety (Simpson, 1988).
- By necessity, all MNEs develop understandings and relationships with host country power brokers and government officials. The ruling élite of many LDCs are corrupt, demanding arrangements which profit themselves and/or others of their class. These ‘deals’ typically involve cash payments, political campaign contributions or personal favours (Vernon & Wells, 1986). This practice increases the gap between the rich and poor. (Alkhafaji, 1995)<sup>27</sup>.

These contemporary anxieties are exacerbated by the fact that they are often considered against the background of the colonial history experienced by many LDCs which has left a legacy of deep resentment towards foreigners and their business practices (Kolde, 1985).

To safeguard themselves from the possible negative effects of MNE activities, most LDCs have instituted a network of regulation and control which, according to LaPalombara and Blank (1984), focuses on four broad areas: (i) foreign investment decision making, (ii) ownership, management and employment control, (iii) regulation of taxation and financial transactions, and (iv) national foreign investment legislation. Each of these elements can be identified in Table 2.1, which summarises the contemporary policies selected LDCs use to regulate foreign operations. Although adherence to host country controls is required under the *chapeau clause* of the OECD guidelines for MNEs, LDCs may remain

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<sup>26</sup> To illustrate this point, Emmanuel hypothesises a scenario whereby the laws of the US may require the headquarters of an MNE to forbid its subsidiary in country A to export equipment to country B, whereas country A law cannot require the local subsidiary to forbid the parent company in the US to do anything.

<sup>27</sup> Some home countries have introduced legislation which prohibits their MNEs and managers from engaging in illicit dealings. The U.S. Congress enacted the Foreign Corrupt Practices Act (FCPA) in 1977 which makes it illegal for a U.S. citizen to make “a corrupt payment to a foreign official for the purpose of obtaining or retaining business for or with, or directing business to, any person ... A similar prohibition applies in respect to payments to a foreign political party or official of a political party or candidate for foreign political office”. Amendments to the FCPA in 1988 excepted ‘facilitating payments’ for ‘routine governmental action’ from prohibition and substantially increased fine for its violation (Phatak, 1997:418–420).



exposed to unscrupulous companies because acceptance of the OECD's codes of conduct is voluntary (Dowling *et al.*, 1999; Robock & Simmonds, 1989).

**Table 2.1 MNE Regulatory Policies Operating in Selected Developing Economies**

<i>Country</i>	<i>Foreign investment</i>	<i>Taxation</i>	<i>Repatriation of capital</i>
<i>Country</i>			
<i>Argentina</i>	Foreign investment in petroleum, mines and banking is allowed, but limited by legislation.	Same rate as national companies, but 12% taxation on dividends paid to non residents.	No restrictions.
<i>Brazil</i>	Discouraged in some sectors, incl. telecommunication, mining and petroleum.	Corporate tax rate of 30 %	Repatriated without tax up to the sum brought into Brazil. 25% tax on additional amounts.
<i>India</i>	Priority industries: up to 51% foreign equity is automatically approved. All other foreign investment requires gov't approval.	Public companies are taxed at 45%. Branches of foreign companies taxed at 65%. All others taxed at 50%.	Stringent controls. No guarantees against currency inconvertibility.
<i>Mexico</i>	Foreigners may not own land, water and minerals. Prohibited in some sectors, including energy, satellites and rail.	Corporate tax rate of 35%.	No restrictions.

(Source: Adapted from Phatak, A. V. (1997). *International Management: Concepts and Cases*. Cincinnati: South-Western, pages 102–103; Hibbert, E. P. (1997). *International Business*. London: Macmillan, pages 188–190).

Traditionally, debate over the advantages and disadvantages of accommodating MNEs has translated into division and tension in host country politics. Since the late 1980s however, the changing global economic landscape has led to a gradual softening of many LDCs' policies towards foreign investment. The main determinants of this shift have been the political changes in Central and Eastern Europe, the increase of LDC multinationals, the emergence of LDC trade alliances, and lenders' growing resistance to injecting funds into failing economies (Dunning, 1993; Jones, 1995; Todaro, 1994). Thus, while recognition of MNEs' actual and potential role in development has been uneven

among LDCs, the relationship between the two is generally improving and therefore it may be assumed that the emerging economies will continue to become more attractive to MNEs in the future.

## **MANAGING IN LESS DEVELOPED COUNTRIES**

The contextual aspects of international management presented earlier in this chapter assume magnified significance when considered within the LDC operating environment described above. Effective management in emerging economies rests on executives' ability to understand, analyse and manage the unique and dynamic features of that environment. Applying the categorisation of external and internal elements used previously, the following discussion provides a framework for the strategic and functional management of MNE subsidiaries situated in LDCs. The discussion is not exhaustive in its scope, rather it is contained to those factors which are relevant to the focus of this thesis. Further, while the various issues presented in this section are portrayed as individual themes for conceptual clarity, in reality they are interactive and interrelated. Managers need to comprehend the connections between these components of the environmental system and realise how, together, they make up the larger contextual picture.

### **The External Environment**

Notwithstanding the heterogeneity of the developing world, the four external influences - legal, cultural, economic and political - can be used to examine the business environment in LDCs. Within each category, the management issues pertinent to this study are discussed in the light of how they impinge on the operations of MNEs.

#### *The Legal Environment*

Irrespective of their orientation, institutions and public policies, the majority of LDC governments have a particular strategy for national development, and these strategies typically include interaction with MNEs. The most influential instrument of government intervention in MNE activities is the host country's legal system. Three areas of LDC legislation relevant to this inquiry are discussed below: corporate financial obligations to the state, regulation of the employer-employee relationship, and the management of natural resources.

The financial operations of MNEs are controlled, in varying degrees, by all governments. However, LDCs have generally tended to be more restrictive than industrialised nations, as they perceive a more pressing need to supervise the direction of the economy and ensure that the country is not overly reliant on outside investment (Selassie & Hill, 1998). Even LDCs which promote more lenient MNE policies often encounter nationalistic pressures against foreign organisations and, as a result, instigate a more regulated environment (Robock & Simmonds, 1989). The close legal control of the cost and profit activities of MNEs operating in many LDCs have significant implications for firms' performance levels, and therefore are a determining factor in formulating corporate strategies and operational procedures.

Of the many legislated imposts, two which are of particular concern to the oil and mining sectors are operating fees and offset obligations. Operating fees, which are generally high in LDCs, are government charges on a firm's inputs, and are levied in the form of concessions, licences, permits and royalties. Offset obligations are governmental requirements for a company to counterbalance the revenues it gains from its host by providing some economic benefit to the country. As the quantum of these expenditures is determined exclusively by governments, MNEs are vulnerable to unexpected and capricious fluctuations (Austin, 1990).

Because indigenous employment is invariably a major economic and social goal of LDC governments (Harris, 1986), official intervention in the employer-employee relationship is customary, although the degree varies widely from country to country. Most LDCs have minimum wage laws, and many have legislated social benefits such as paid holidays, social security contributions, education subsidies, travel allowances and severance benefits (Austin, 1990). It is also common for governments to prescribe the size and ethnicity of MNE workforces in the interests of local employment opportunities (Hibbert, 1997; Mangaliso, 1992).

Although low labour costs are often an initial attraction for MNEs, LDC governments tend to legislate for increased wages and improved working conditions as the economy develops, so entry decisions based purely on this variable may not be sound (Alkhafaji, 1995). Furthermore, LDCs in general encourage trade union growth by affording them legal status and providing for compulsory arbitration or labour courts. Collective bargaining power and the right to strike are usually severely restricted, however (Kolde, 1985).

The legal constraints placed on the employment relationship in emerging economies is clearly a matter for close management scrutiny, as they have the potential to reduce firms' efficiency and profit. Poole (1986) believes MNEs need to adopt a flexible approach to LDC employee relations and he exhorts managers to understand the history, society and ideologies which underpin a nation's labour laws.

The availability of requisite natural resources influences the location and prosperity of all organisations. In many LDCs, access to these resources is impeded by geographical or technological variables however, in many cases legal requirements also affect their use. This is particularly evident in the mining and oil industries where laws concerning subsoil rights differ from one country to the next. Whereas some nations deem subsoil deposits to be the property of the surface land holders, others vest ownership in the government or even in particular rulers (Farmer & Richman, 1965).

The ecological problems confronting all nations are generally more acute in LDCs. While the causes of this dilemma are various, a contributing factor has been a lack of comprehensive environmental controls. This has afforded MNEs virtually unrestricted access to, and treatment of, LDCs' natural resources. Although slower to react to social and international pressures concerning the natural environment, LDCs are now moving to enact legislation to protect their land, waterways and air (Brown *et al.*, 1993). These changes are impacting upon deliberately exploitative firms and inherently polluting industries.

### *The Cultural Environment*

A key element of MNE performance is management's understanding of the prevailing cultural variables and their significance to the firm's operations. Despite the substantial cultural diversity within and among LDCs, they appear to display particular characteristics which are not as widely evident in the industrialised world. Of these characteristics, four are pertinent to this thesis: the nature of social organisation, orientation towards materialism, language systems, and culturally defined thought patterns. These are examined in turn.

In considering the cultures of various countries, Hofstede (1995) identified four dimensions of national culture which he termed power distance, individualism, masculinity and uncertainty avoidance. Concerning the first two factors, he found that LDCs have a tendency towards paternalistic relationships (large power distance) and collectivism (low individualism). This translates into

groups being structured according to ethnic, tribal and family attachments. The high value placed on group loyalty may result in two negative outcomes for foreign companies. Firstly, ethnic or community allegiances can be expected to take precedence over national identity and corporate commitment (Casson, 1995) which, in turn, may fuel political instability. Secondly, Hofstede (1995) proposes that, due to close attachment to their own circle (the 'in-group') members often preclude outsiders (those from an 'out-group'). As outsiders, MNEs could reasonably anticipate the economic and social involvement of foreign people and businesses to be questioned or even rejected.

In subsistence economies, social organisation often centres on the family and community, and life is typified by closed groups operating a barter system with no notion of saving and investment. Farmer and Richman (1965) note that, under these conditions, the focus on material goods is one of immediate use rather than accumulation. Cultures which do not emphasise the acquisition of assets or wealth generally seek and enjoy aesthetic and spiritual values (Phatak, 1997).

For various reasons, local attitudes towards wealth are a critical dimension in managing multinational firms which emanate from acquisitive cultures. Firstly, the manner in which a society directs its economic activities is governed largely by its cultural predisposition towards materialism (Alkhafaji, 1995). As MNEs are progress orientated, they may be in conflict with the local culture if they are located within communities which do not have a high regard for economic development. Secondly, there is sustained argument that technological advances have a detrimental effect on "family, religion, custom and, in particular, stability of a moral code" (Cutbush-Sabine & Petzell, 1991:178). Thus, societies which embrace traditional beliefs may view alien corporations as a threat to their communal values. Thirdly, the environmental disturbance which typically accompanies economic development (Beamish *et al.*, 1994) is likely to be resented by cultures which have a close affinity with their ecological realm.

Because communication systems are culturally based, the internal diversity of LDCs has engendered a diversity of languages; Austin (1990) reports that almost 60 per cent of developing countries are linguistically heterogeneous. This presents significant barriers to MNEs in managing employees, dealing with local authorities, negotiating agreements, and the like. Conventional wisdom dictates that expatriate managers learn the local language prior to foreign appointments (Baker, 1984; Tung, 1981), but this is extremely difficult in areas where multiple, and often unrelated, languages are in use. Moran, Harris and

Stripp (1993) suggest the use of interpreters when working in foreign nations, but such assistance is not readily available in LDCs where, due to educational deficiencies and geographic dispersement, few people speak a second language.

### *The Economic Environment*

Irrespective of the country concerned, MNEs use the same economic indicators to judge opportunity and risk. The emphasis placed on each indicator is not equal however, and differs according to various national idiosyncrasies, one of which is the level of economic development. Porter (1990) claims that a nation's competitive advantages may be categorised into four dimensions<sup>28</sup>, and notes that the advantages of LDCs are almost entirely dependent on their factor endowments<sup>29</sup>. Four LDC factor conditions are particularly relevant to this thesis, and are considered hereunder: natural resources, labour, technology and infrastructure.

Despite recent improvements in levels of industrialisation and economic growth in some LDCs (Ghosh, 1996), most still rely on agricultural goods and/or mineral/petroleum extraction to generate foreign exchange and to attract MNE investment (Arnold, 1988). Excessive dependency on a limited number of primary commodities leaves LDCs exposed to the wide fluctuations in world demand for, and the export prices of, these products (Kolde, 1985). MNEs operating in countries with a dominant resource base need to monitor that sector's performance closely, as its fortunes will impact on macroeconomic and microeconomic variables. At the macro level, movements will have a significant effect on the national economy and government policies, both of which may have serious consequences for foreign firms. At the micro level, a change in commodity prices may influence consumer demand, capital availability or labour supply to the detriment of the firm.

Arguably more important than the demand and price of natural resources, is the ecological and sociological impact of extracting them. In the past, many MNEs have taken advantage of LDCs' less stringent regulations or expectations concerning environmental damage (discussed previously) and their general lack

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<sup>28</sup> Porter's dimensions of competitive advantage are (i) factor conditions, (ii) demand conditions, (iii) related and supporting industries, and (iv) firm strategy, structure and rivalry (1990:547).

<sup>29</sup> Factor endowments are those elements which facilitate the needs of a particular industry such as land, resources, capital, labour and the infrastructure. Porter (1990) proposes that, if LDCs are to compete with advanced industries, they need to upgrade the non-factor dimensions.

of clear property rights regarding access to resources (Hunt, 1996). Concerning the former, MNEs are now beginning to adjust their policies and operations to align with social and political concerns about environmental protection (Sunderland, 1996). For management, this requires actions such as integrating environmental factors into strategic and tactical planning, deciding whether environmental policies should be organisation-wide or country specific, developing technology to reduce ecological damage, and substituting depleting resources with alternative materials (Gladwin & Walter, 1987; Ronen, 1986; Shrivastava, 1994b; Stead & Stead, 1992).

LDCs persistently suffer from a low stock in human capital. The combination of high population growth, inadequate educational systems, low literacy rates, and extreme unemployment and underemployment results in most LDCs having an over-supply of unskilled labour and a scarcity of skilled labour. The high unemployment and seasonality of the rural sector contributes to the continuous urbanisation of LDCs (Wahba, 1996) which, in turn, magnifies the problems associated with regional dualism (Casson, 1995)<sup>30</sup>. These labour market conditions have resulted in difficulties for MNE management in a number of LDCs. Whereas foreign investors initially found large pools of cheap labour attractive (Dowling *et al.*, 1999), rising wages and/or host country intervention eventually dissipated this advantage (Bartlett & Ghoshal, 1992). Further, excessive reliance on unskilled workers was not sustainable. As increased competition drove changes in technology, firms faced the expense of either adapting their systems to the local workforce (Watanabe, 1984) or providing technical training for indigenous workers (Dowling *et al.*, 1999). As a result of training, employees have increased opportunities to work elsewhere, given the large unskilled population. To avoid high turnover in these circumstances, operating costs have increased due to the payment of higher wages and the provision of various forms of intrinsic motivators.

MNEs have the capacity to alleviate the technological dualism noted previously. In many instances, it is more efficient for firms to source goods and services externally rather than producing them 'in house'. Generally, the less advanced sectors in LDCs are comprised of indigenous firms or cooperatives which have the capacity to supply MNEs with simple goods or basic services at a lower price than imported goods or expatriate workers. Further, these industries can

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<sup>30</sup> Regional dualism refers to a social and economic climate in which one group in an LDC belongs to the traditional, subsistence society and another belongs to the modern capitalist society, and there is little direct contact between the two (Hoogvelt & Puxty, 1987)

represent a market for MNEs (Awuah, 1997; Geroy, Jankovich, Hyden & Wright, 1997). Not only can the fostering of commercial arrangements with indigenous businesses have economic benefits for MNEs, it may also be a valuable public relations policy.

The widespread inadequacy of public services in LDCs has serious productivity implications for the private sector, be it indigenous or foreign (Miller, 1992). If the host country is unable or unwilling to supply the required infrastructure, MNEs may be encouraged to build the facilities they need after which they may be retained as a corporate asset or turned over to the government. In either case, the supply of roads, rail, ports, electricity generation, communication networks, health and education facilities, and sanitation systems is a valuable bargaining tool in corporate-host government relationships because it improves the local stock of human capital and encourages further foreign investment (Austin, 1990; Lall & Streeten, 1977; *Partners in Development*, 1970).

#### *The Political Environment*

The political risk discussed earlier is universal, however it is of particular concern to companies operating in undeveloped economies (Diamonte, Liew & Stevens, 1996; Hutton, 1988). The risk inherent in most LDCs may be conveniently divided into three dimensions: stability, nationalism and international relationships.

The economic and historical characteristics of LDCs have resulted in many of them having an extremely volatile political environment. The manifestation of this climate typically includes authoritarian governments which have no countervailing democratic pressures, military *coups d'état*, or frequent changes in ruling parties or policies (Austin, 1990; Gabriel, 1972; Selvarajah, 1991c). The absence of democratic principles which commonly accompanies these factors is responsible for social instability because the beliefs, values and attitudes of the general population, or particular segments thereof, are not reflected in government policy or business practices (Miller, 1992). In the LDC context, the previously noted strategies for managing these variables need to be augmented with more long-sighted and detailed analysis, and particular emphasis must be placed on the ideological forces which drive potentially injurious actions or policies.

Compared with the First World, governments in LDCs tend to have a much higher participation in business through the promotion of a large public sector, the maintenance of government owned/controlled companies and by taking an



active role in the operation of the private sector. The logic of this approach is based on nationalism and has the dual objectives of accelerating development and controlling economic institutions and the wider society (Nath, 1988). Such regulatory practices constrain both the scope and activities of firms by limiting the benefits of competition and enforcing adherence to bureaucratic procedures (LaPalombara & Blank, 1984). In effect, management has little choice but to adhere to the demands of government, but desultory outcomes may be mitigated by understanding the depth of nationalistic sentiment, the philosophies which drive it, and effectively managing the company's relationships with officials and bureaucrats.

To some extent, the policies of every government are a reflection of its political relations with other nations. While trade and investment around the world are significantly affected by the interdependence of the international economic and political system (Phatak, 1997), LDCs are particularly susceptible to its vagaries by virtue of (i) their dependency on the industrialised economies (Hveem, 1973; Targ, 1976; cited in Kobrin, 1984), (ii) the political implications of religious affiliations (Ronen, 1986), and (iii) their relationships with the home countries of MNEs (Hibbert, 1997). Because the nature of LDCs' links with other nations may benefit or restrain the activities of MNEs (Kolde, 1985), management needs to analyse the historical and prospective aspects of its host country's international relationships and operate within the confines dictated by those factors.

### **Organisation and Management**

In discussing the various approaches which may be taken in managing MNEs in the LDC business environment, much of the above emphasised the alignment of firms' policies and practices with their immediate operating context. Although this is common to all MNEs, the economic and human circumstances of LDCs require more than the adjustment of a few narrow organisational aspects; the entire internal orientation of the company must be committed to environmental congruency. The core components of symmetry between MNEs and their LDC hosts are (i) attaining the appropriate degree of convergence, divergence or crossvergence, (ii) ensuring the philosophies held by key personnel are appropriate to the demands of the environment, and (iii) developing an internal environment which concurrently holds global perspectives and local empathy.

### *Convergence, Divergence and Crossvergence*

As discussed previously, MNEs need to pursue convergence in the macro-environment and divergence in the micro-environment. This requirement is particularly pronounced in LDCs.

Most LDCs lack the managerial expertise and advanced technology required to advance them from excessive reliance on factor endowments (Kobrin, 1982; Kolde, 1985; Porter, 1990). As foreign companies are virtually the only reservoir of these resources, the increased involvement of MNEs in developing economies is a matter of priority (Hibbert, 1997; Khambata & Ajami, 1992; LaPalombara & Blank, 1984). Reflecting the previously described tenets of institutional theory (DiMaggio & Powell, 1983), MNE management, in supplying these key elements of modernisation, act as agents for the dissemination of internationally accepted business and management practices in the developing world. By necessity therefore, MNEs perpetuate converging approaches to corporate organisation.

At the same time however, the unique and diverse environmental features of LDCs produce an operating setting with many dimensions which contrast sharply with those of the industrialised world. These factors preclude the absolute standardisation of company procedures and policies, as Newman and Nollen (1996:755) note:

Management practices that reinforce national cultural values are more likely to yield predictable behavior [Wright & Mischel 1987], self-efficacy [Earley 1994] and high performance [Early 1994] because congruent management practices are consistent with existing behavioral expectations and routines that transcend the workplace.

Thus the conventional tenets of management and technology, while providing a degree of global integration for multinationals, can only serve as a broad operating framework for individual MNE units. Accounting for the differentiating factors between those units and incorporating them in the functions of the firm is of paramount importance, particularly in LDCs which are typified by those national characteristics discussed in the preceding section.

### *Management Philosophy*

As the fundamental link between the company and society, management must relate to the values and expectations of all members of the social system both within and outside the firm. In developing nations, the need for management consideration of social conditions is more acute, given the nature of the overall environment in LDCs. As noted earlier, management's capacity for social responsiveness is, to some degree, a function of the personal perspectives held

by individual executives. The attitudes of corporate management to the human and economic plight of LDCs is, therefore, an essential ingredient in corporate and personal performance (Srinivas, 1995).

MNEs' responsibilities in emerging economies are not limited to the issues discussed above concerning the congruency of organisational functions and the environment. Beyond the internal operations of the firm, the managers of MNEs have a moral duty to alleviate, as far as possible, the human suffering of their host population (Donaldson, 1989). According to Austin (1990:372), the extent to which this occurs ultimately depends on management's attitude towards the people living in LDCs:

Developing countries are beset with pressing socioeconomic problems and social needs. The intensity and pervasiveness of poverty produce widespread human suffering. Managers must ... define their responsibility as helping to meet community needs. Managers have skills, resources, and institutional influence that can be mobilized very effectively to address social needs. Social responsibility and ethical sensitivity are essential to ... management.

For those nationals from developed countries assigned to executive positions in LDCs, the general requirement of appropriate personal characteristics is magnified. As well as possessing the previously noted traits, these individuals need an innate empathy with the plight of the LDC population. The firm must not only recognise these characteristics, but also develop them. Although evidence of any correlation between managerial social responsiveness in LDCs and the presence of a particular philosophy is sparse, expatriate failure rates may infer such a relationship. Earlier studies by Desatnick (1978) and Tung (1982) suggest that expatriate failure rates in LDCs are considerably higher than those in developed countries.

### *Organisational Culture*

Of the various dimensions of corporate culture, three require particular attention in managing MNEs in LDCs. Due to the social and economic climate in most developing countries, the management of workplace relationships, compensation policies, and workplace diversity requires flexibility and innovation on the part of MNE executives. Each is investigated in turn.

The general attitude towards authority and equality which prevails in the national culture influences the manner in which people structure their relationships within organisations. The tendency of LDC nationals to favour large power distances and low individualism (noted previously) equates to employees who are typically more accepting of hierarchical structures and who expect

benevolent management practices. MNE managers therefore, could anticipate a workforce which provides loyalty and obedience and, in return, see management's obligation as extending to individual families and perhaps the wider community (Hofstede, 1995). Low individualism would also manifest itself in strong group affiliation whereby workers uphold the principles of mutual obligation and loyalty. These characteristics place particular demands on managers from industrial nations who are accustomed to low distance/high individualism cultures. Emphasis on task performance needs to yield to working through trusting relationships and assuming responsibility of the 'whole' employee and his/her family.

Compensation systems may be culturally confounded. Whereas the maintenance of an equitable internal wage structure is vital to employee performance and morale in industrialised nations (Groenekamp & Yaney, 1986; Milkovich & Newman, 1996), the same perception of fairness may not be applicable in LDCs. Given the high rate of unemployment, any LDC citizen in regular paid work is, in relative terms, economically advantaged. MNEs which, in the interests of equity, pay local and expatriate workers equivalent wages for the same work, exacerbate the uneven distribution of LDC incomes. This situation may not be politically and/or socially acceptable in developing economies (Simpson, 1987). Management therefore, needs to account for host country standards and practices when designing compensation systems (Dowling *et al.*, 1999).

The earlier reference to Child's (1981) observation that cultural and national boundaries do not necessarily correspond is most evident in LDCs. Kolde (1985:151) advises that "tribalism still exists and creates disjointed value systems and social structures in most ex-colonial countries". For MNEs attempting to build a collaborative, multicultural workforce, local groups which sustain separatist attitudes towards other communities and/or the national government present a difficult challenge. Manifestations of the enmity between indigenous clans can range from latent hostility to open warfare (Robock & Simmonds, 1989), and is a contributing factor to the political instability inherent in many LDCs. Frictions caused by ethnic tension within the firm may "create disruptions, negatively affect workplace discipline, [and] decrease managerial control" (Austin, 1990:60).

Solutions to this problem turn on management being aware of the cultural and social issues of the host LDC communities (Kolde, 1985) and its ability to establish a positive climate for diversity (Cox, 1993; Dymsha, 1987b). To

achieve a climate which gives due consideration to surrounding cultures, Ott (1989)<sup>31</sup> suggests a management intervention process which entails (i) hiring only those who value the firm's goals of integration with the host culture, (ii) teaching all employees what is and is not acceptable, (iii) removing members who refuse to accept the modified corporate culture, (iv) providing intrinsic and extrinsic rewards for those who demonstrate appropriate behaviours, and (v) modifying the communications system (language, rites, ceremonies, etc) so as it supports the goals of diversity. Ott's intervention process aligns with Dyer and Shafer's (1999) principle of 'forging a common purpose' within organisations.

## SUMMARY OF THE LITERATURE REVIEW

The literature reviewed in this chapter focuses on two themes; the theories and studies which inform the management of MNEs, and the particular challenges facing MNE management in LDCs. Of the various issues which have emerged, three are of particular significance to this study.

First, throughout the 20th century, the character of international business has evolved from cross-country trading and colonial empires to global production and marketing, and the advent of the MNE. The explosive growth in world commerce and MNEs, particularly over the past three decades, has resulted in a fiercely competitive global marketplace which pays little regard to national borders. Concomitant with these developments has been the recognition of a need for an international management perspective which is capable of evaluating, influencing, and responding to the turbulence of global business.

Second, critical to MNE management is an appreciation of the organisation's external and internal operating context. At the external level, dynamic and diffuse legal, cultural, economic and political forces cut across virtually all management functions and skills. Although these forces are agents of opportunity, they carry an inherent threat to corporate performance. Reliance on home country practices and the pursuit of convergence may be ineffective or even dangerous, and thus managing MNEs entails understanding the environment and configuring the organisation appropriately. At the internal level

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<sup>31</sup> It is evident that some of Ott's dimensions appear to contravene accepted management behaviour and best HRM practice. The social systems of many LDCs do not incorporate similar values however, and therefore Western notions of equity, justice, due process, and the like cannot be considered as universal (De George, 1993). As discussed later in this thesis, the application of home country standards by the management of the subject company proved to be a significant factor in its demise.

therefore, MNEs' structure, institutional arrangements, resource allocation, processes and management practices need to be amenable to the surrounding conditions. For this to occur, expatriates who manage MNEs need to move beyond a single country mentality to a point where they operate comfortably within their surroundings, working from a conceptual base which filters established management techniques through the requirements of local social and behavioural systems. This requires managers with personal characteristics which are appropriate to the task, and who are able to develop and maintain an organisational culture capable of sustaining a synergistic relationship with corporate, local and international demands.

Finally, it has been ascertained that LDCs present corporate management with a volatile and seemingly contradictory business environment. Anxious to improve their material and social circumstances, most LDCs encourage the presence of MNEs as they recognise their pivotal role in national development. At the same time, they are concerned about the possible disadvantages of involving foreign firms in their economies. This ambivalence generates political and popular constraints to MNEs in terms of their location, policies, and operations. Managing within the complexity, diversity and instability of the social and economic environment of an LDC demands qualities beyond those required in developed countries. Technical competence and recognition of cultural differences are not enough; empathy and adaptability are required to produce outcomes which are simultaneously compatible with the perspectives and expectations of host governments, local societies, corporate goals, home governments, and the world community.

Each of these dimensions is an integral constituent of this study of BCL. The company was a pioneer of Australian international business during the post-war period, operating in an LDC through times of economic, social and political upheaval in both its host country and host society. Without the benefit of precedent or significant literature upon which to base their decisions, the men who guided BCL for 25 years generally achieved the local support and environmental congruence which underpins much of the contemporary thought on international management. Whilst BCL's success may be largely attributed to these advanced managerial approaches, ultimately the venture still succumbed to environmental forces. The reasons for BCL's failure are explored in the following section.

## **BOUGAINVILLE COPPER LIMITED: AN EXAMINATION OF ENVIRONMENTAL SYNERGY**

The objective of this research is to evaluate the theory and processes of environmental alignment as it is presented in extant literature. This will be achieved by investigating the nature and impact of environmental variables on the management and corporate performance of a large MNE, and comparing the results with prior research. BCL was selected as the focal case because its unique contextual properties, both internal and external, provide the opportunity to develop a singularly clear insight into those environmental elements which are highlighted in the literature as being significant to organisational performance.

### **The Central Research Question**

This thesis investigates the management of BCL's internal and external operating environments through a central research question:

*In what ways might the experience of Bougainville Copper Limited be instructive to the study and practice of MNE management in environments which are significantly different to home country conditions?*

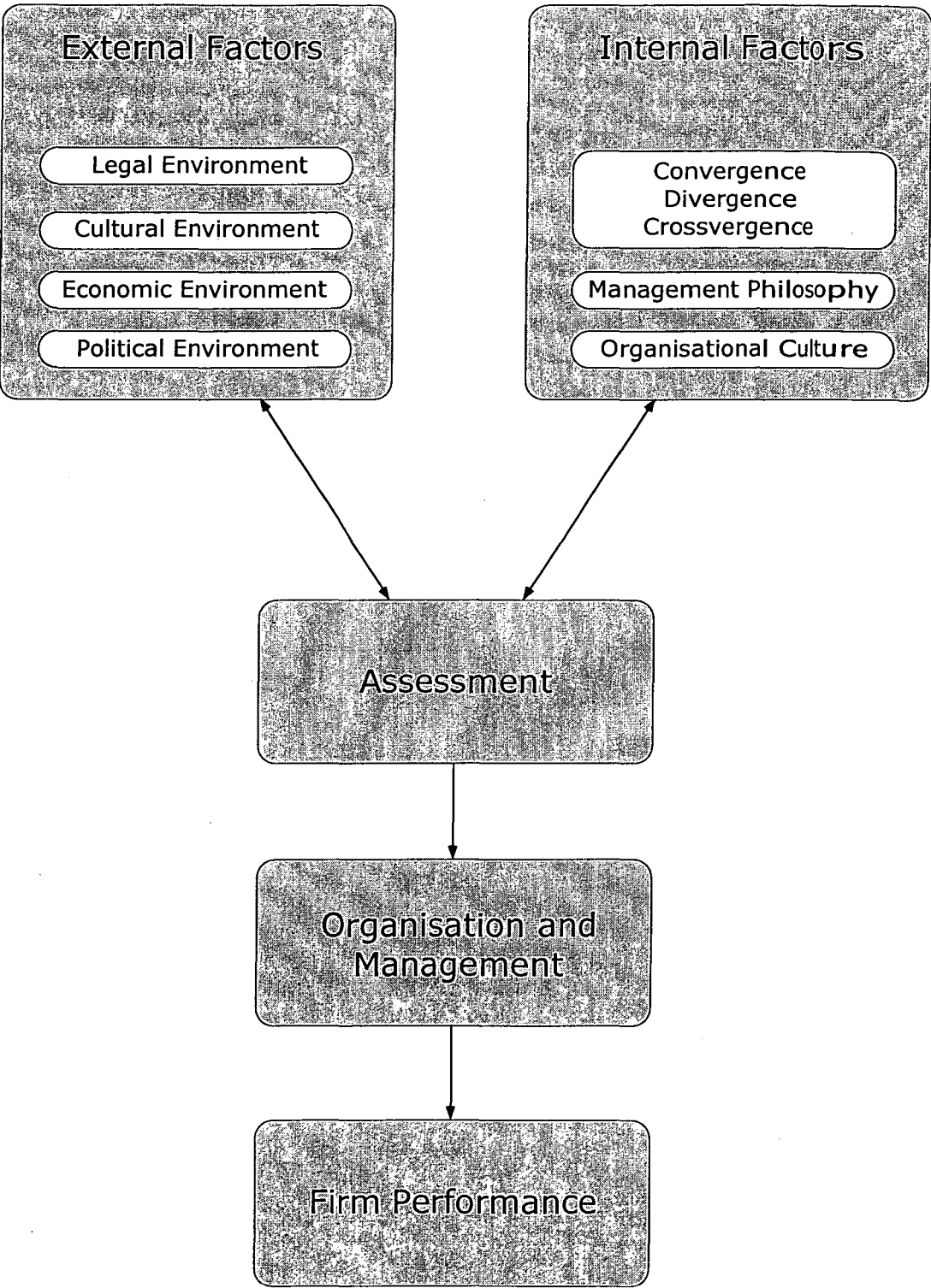
This question, which ultimately guides the exploratory focus of the thesis, has been further refined into seven research questions which form the basis of the research and constitute the major issues for analysis of the case study data.

### **The Research Questions**

There is consensus throughout the literature that MNE performance depends not only on the nature of the internal and external environment of the firm, but also on the ability of management to establish congruency between these two influences and maintain this fit by flexibility and adaption. All management functions are thus contingent upon the alignment of two essential elements: the outcomes from the assessment of the firm's legal, cultural, economic and political milieu, and the extent to which convergence, divergence or cross-vergence is pursued, the philosophies held by management, and the culture of the firm. Alignment can be achieved by (i) modifying organisational factors to match the local, national or international business environment, (ii) influencing external factors to meet the needs of the firm, or (iii) some combination of both.

These elements, and the connections between them which have been proposed in prior research, have been summarised schematically in Figure 2.1. Depicting an equal influence of the internal and external environment, this diagram

**Figure 2.1     The Relationship and Influence of Environmental Factors on Firm Performance**





represents the balance necessary for optimal firm performance. This is achieved by management assessing the nature of the two environments, and then adjusting relevant organisational dimensions (internal factors) and/or by exerting pressure on particular areas of the operational setting (external factors).

The literature suggests however, that the capacity of firms to manipulate environmental variables may be restricted. Concerning the modification of the internal environment, it was noted earlier that total divergence is neither practical or possible, and ultimately firms need to configure their organisation according to the dictates of efficiency and profit. Facilitating change within certain constituents of the external environment may also be limited. For example, national culture is largely immutable, and international conventions circumscribe corporate behaviour. Thus, the ability of MNEs to realise internal-external symmetry is not only a function of the degree to which they need to change either or both environments, but also the degree to which those environments are amenable to change. This is the focus of the first research questions in this thesis.

**Research Question 1a:** *To what extent were elements of the internal operating environment of Bougainville Copper Limited (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's external operating environment (i.e. legal, cultural, economic and political factors)?*

**Research Question 1b:** *To what extent were elements of the external operating environment of Bougainville Copper Limited (i.e. legal, cultural, economic and political factors) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's internal operating environment (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture)?*

The literature indicates that LDCs present firms with operating contexts which are significantly different than those encountered in developed nations. These differences are multi-dimensional. As a group, LDCs generally diverge from the industrialised world across all four environmental categories. Individually, LDCs tend to be internally heterogeneous which results in a variety of business environments within their borders. The diversity of operating conditions

evident among and within LDCs suggests that foreign firms might experience greater difficulty in achieving internal-external symmetry in LDCs than they would encounter in developed economies. It also appears that the constraints inherent in LDC environments become increasingly pronounced the more those environments differ from the business conditions to which MNEs are accustomed. Accordingly, as home country and host country operating contexts deviate and become more complex, external factors will exert increasing pressure which may militate against environmental congruency. Concomitant with this is a weakening of the effectiveness of environmental assessment and a decline in the firm's influence on its surroundings. The above model may thus be modified to reflect the diminishing internal-external balance occasioned by diverging home and host operating climates. Figure 2.2 reflects these changes.

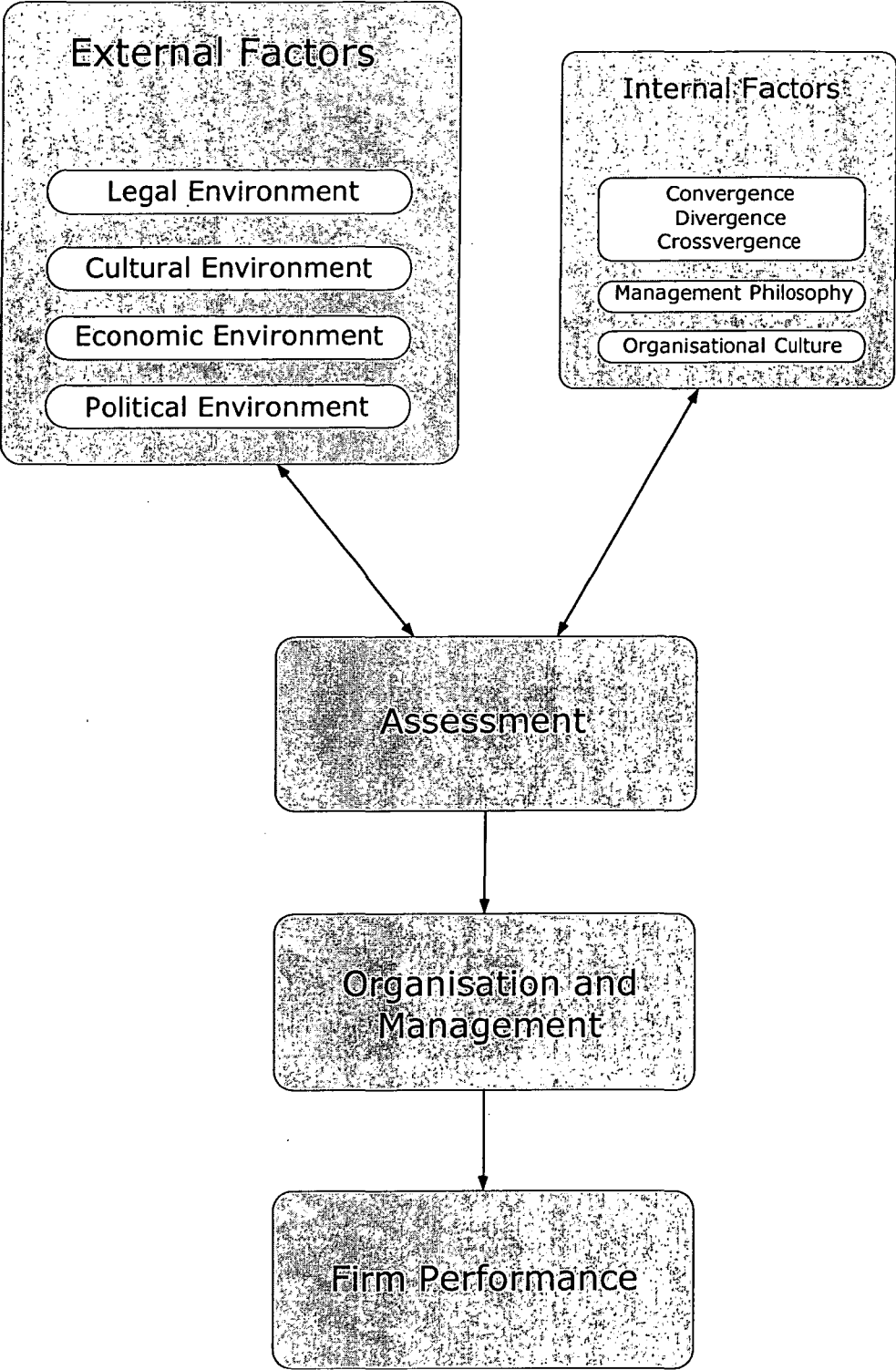
Whereas Figure 2.1 depicts an equivalent influence of internal and external factors on firm performance by characterising these environments as rectangles of equal size, Figure 2.2 reflects the increasing influence of external factors by portraying this environment as a larger rectangle. This increase, in turn, results in the influence of internal factors diminishing (represented by a smaller rectangle) because the firm is either unable to adjust its organisational dimensions sufficiently or cannot exert adequate pressure to change its operational setting.

Given the substantial differences evident in BCL's host and home countries, the second and third research questions investigate the nature and relative influence of the company's internal and external environments in order to determine the degree to which contextual symmetry was achieved.

**Research Question 2a:** *Which of the internal factors – the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture – had an impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

**Research Question 2b:** *To what extent did the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

**Figure 2.2     The Impact of Diverging Home-Host Business  
Conditions on Environmental Convergence**



**Research Question 3a:** *Which of the external factors – legal, cultural, economic or political – had an impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

**Research Question 3b:** *To what extent did legal, cultural, economic and political factors impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

The foregoing suggests that, under certain conditions, there is a point at which the foreign operating context becomes so divergent from the MNE home country that environmental congruency is difficult to achieve. Pressures from the external environment may be expected to substantially deplete the firm's ability to adapt internally, leaving outside forces as the dominant influence on management actions. Should this occur, firm performance declines significantly because management is not able to meet the needs of both environments.

Significant environmental incongruency is presented schematically in Figure 2.3. Here, the external factors dominate and are depicted by a very large rectangle. The internal factors are portrayed by a very small rectangle because, although still intact, they are unable to effectively influence the manner in which management functions are executed. With management control over the firm's operation severely circumscribed, the performance of the firm becomes largely subject to the vagaries inherent in the external environment.

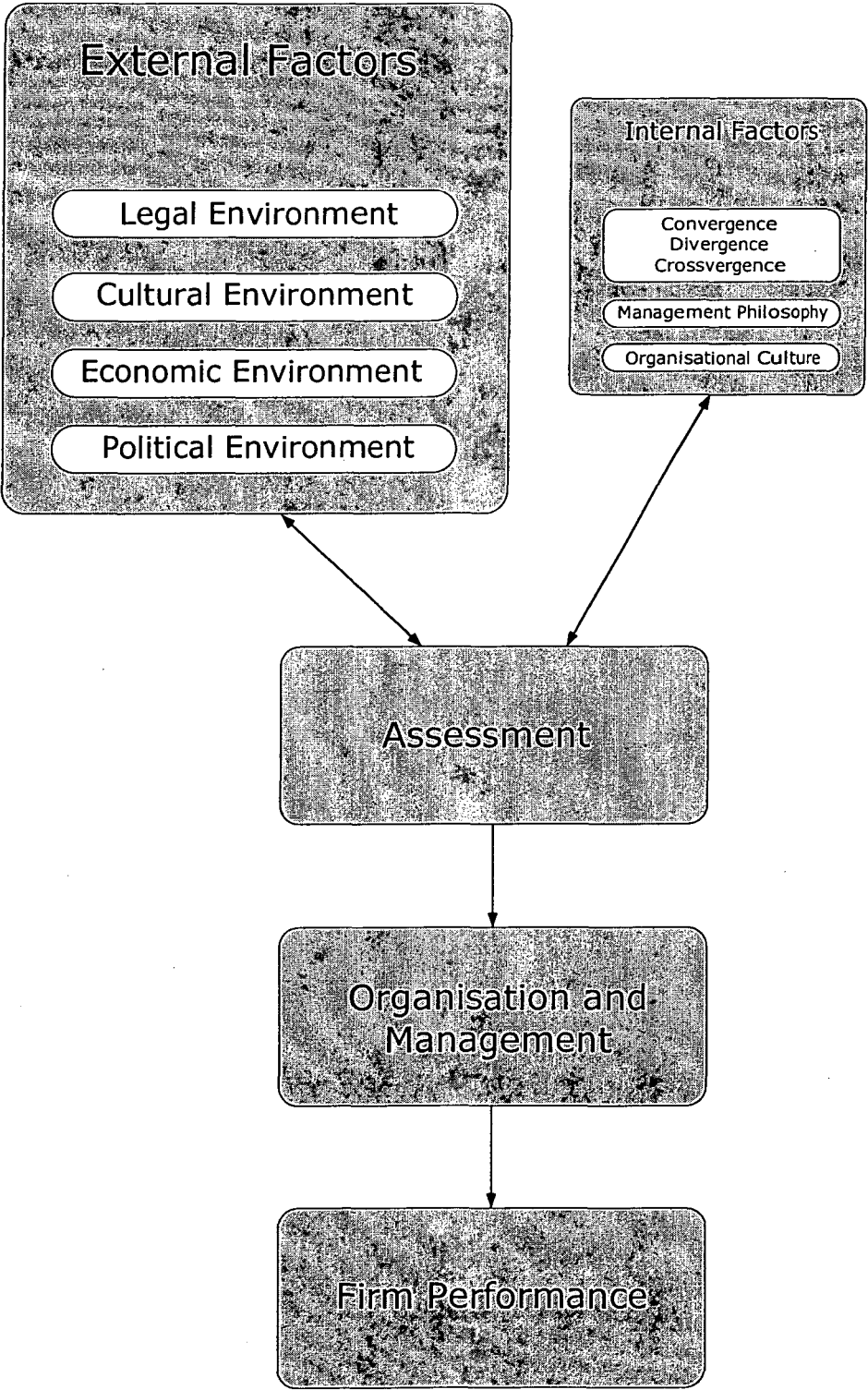
The fourth research question pursues this issue as it explores possible links between any environmental imbalances which emerge from the case study and the demise of BCL.

**Research Question 4:** *Was the closure of Bougainville Copper Limited's Panguna mine the result of a deficiency in environmental alignment?*

## CHAPTER SUMMARY

This chapter has reviewed theories and studies which inform the management of MNEs. The body of research on international management has produced two significant outcomes. Firstly, it has identified elements within the external

**Figure 2.3     The Impact of Heterogeneous Home-Host Business  
Condiditions on Environmental Congruence**



environment which impact on MNE performance and has produced an understanding of appropriate management responses to many of the issues arising from that environment. Secondly, it has emphasised the need for, and established approaches for achieving, congruency between an MNE's internal operations and systems and the local and global environment. While the literature acknowledges that neither of these outcomes is completely attainable in practical terms, both concepts are widely supported as fundamental and complementary contributors to MNE performance.

Although the degree to which MNEs are able to align their internal and external environments cannot be measured in absolute terms, there appears to be an inverse relationship between attaining this objective and the heterogeneity of conditions in the home and host countries. That is, the probability of MNEs achieving internal-external congruency decreases the more the business environment in host countries deviates from that in the home country. This appears to be particularly evident in LDCs where virtually every environmental dimension diverges significantly from conditions in developed economies.

By addressing the research questions, this study investigates the extent to which home-host country heterogeneity impacts on firms' attempts to align their internal and external environments. In so doing, the study aims to further develop an understanding of international management as it applies to MNEs operating under diverse environmental conditions, with a particular emphasis on emerging economies. In order to achieve this, the thesis analyses the history of Bougainville Copper Limited, an Australian based mining venture operating in an isolated region of a developing economy.

# **CHAPTER 3**

## **RESEARCH DESIGN AND METHODOLOGY**

### **OBJECTIVES OF THE CHAPTER**

The objective of this chapter is to describe the research methodology adopted in this thesis. The inquiry is primarily, but not exclusively, exploratory in nature, and aims to contribute to management theory concerning the performance of MNEs by examining the case of Bougainville Copper Limited. Consistent with this aim, the research takes a qualitative approach which accommodates the induction of theory through building on existing knowledge and postulated relationships, yet remaining receptive to any patterns or phenomena which may emerge. The chapter explains the rationale and process of case study inquiry, and details the methodological principles and procedures which were engaged to investigate the research questions.

### **RATIONALE FOR THE RESEARCH DESIGN**

The broad aim of this thesis is to examine the impact of environmental influences on the performance of MNEs operating in business conditions significantly different than those experienced in their home countries. The literature review in Chapter 2 revealed that a range of endogenous and exogenous factors interact to determine corporate outcomes. These factors may be distilled into categories which establish the issues to be investigated in this research. These issues are presented in Table 3.1.

As well as identifying various exogenous and endogenous factors which impact on firm performance, the extant literature emphasises the need for MNEs to achieve an alignment between these contextual elements and suggests management interventions to attain the required 'balance'. This thesis seeks to evaluate current understanding of environmental symmetry as it is presented in the literature by examining that literature in the light of the experience of Bougainville Copper Limited.

Due to the human and corporate complexities embedded in the above issues, the investigation of the subject requires a research process which is not only capable of discovering the behaviour of the various parties in the Bougainville case, but

**Table 3.1 Environmental Factors Identified in the Literature Review as Relevant to this Research**

<i>Exogenous factors</i>	<i>Endogenous factors</i>
Features of the legal system which impact MNEs' financial operations.	The degree to which the firm pursues convergence, divergence and cross-convergence.
Features of the legal system which impact on employment relationships.	The philosophies held by the firm's management.
Features of the legal system which impact on access to natural resources.	The firm's organisational culture as it relates to workplace relationships, employee compensation, and workplace diversity.
The social organisation of the host society.	
The attitudes of the host society towards materialism.	
The language systems of the host society.	
The way in which the host society perceives & conceptualises phenomena.	
The economic and ecological emphasis placed on the use of natural resources.	
Labour market conditions in the host society.	
The technological capacity of the host society.	
The infrastructure of the host society.	
The political stability of the host society.	
The degree of nationalism evident the host society.	
The nature of political relationships between the host society and other societies and nations.	

is also able to penetrate the intentions and motives behind those behaviours. Accordingly, a qualitative research strategy was adopted, as this method provides

a means of accessing unquantifiable facts about the actual [subjects]... [and] allows the researchers to share in the understanding and perceptions of others and to explore how people structure and give meaning to their daily lives (Berg, 1989:6).

Despite suggestions that qualitative research is subjective and lacks precision (Allan, 1991; Kidder & Judd, 1986), it has provided significant contributions to understanding human actions. Collins (cited in Newman, 1991:412) states that "much of the best work in sociology has been carried out using qualitative methods without statistical tests".



## THE RESEARCH QUESTIONS

Given the open nature and methodological flexibility of qualitative research (Denzin & Lincoln, 1994), operational parameters must be established in order to control the volume of data presented in the case (Miles & Huberman, 1994). In this thesis, the parameters in the research are defined by the central research question and the seven sub-questions for investigation which arise from it. These emanated from prior inquiry, in accordance with Eisenhardt's (1989) reasoning that research questions should be derived and honed from existing literature.

The central research question is:

*In what ways might the experience of Bougainville Copper Limited be instructive to the study and practice of MNE management in environments which are significantly different to home country conditions?*

The sub-questions which arise from the central research questions are:

**Research Question 1a:** *To what extent were elements of the internal operating environment of Bougainville Copper Limited (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's external operating environment (i.e. legal, cultural, economic and political factors)?*

**Research Question 1b:** *To what extent were elements of the external operating environment of Bougainville Copper Limited (i.e. legal, cultural, economic and political factors) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's internal operating environment (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture)?*

**Research Question 2a:** *Which of the internal factors – the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture – had an impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

**Research Question 2b:** *To what extent did the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

**Research Question 3a:** *Which of the external factors – legal, cultural, economic or political, – had an impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

**Research Question 3b:** *To what extent did legal, cultural, economic and political factors impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

**Research Question 4:** *Was the closure of Bougainville Copper Limited's Panguna mine the result of a deficiency in environmental alignment?*

As recommended by Eisenhardt (1989), the research questions remained tentative during the course of the investigation and underwent various iterations so as to minimise researcher bias and avoid them limiting the outcomes of the study.

## **RESEARCH METHODOLOGY**

The research questions are investigated using an ethnographic case study method. This approach satisfies the inductive aims of the inquiry, provides maximum flexibility to the research process, and ensures that no variables are excluded from the examination.

### **Ethnography as a Research Paradigm**

The literature review demonstrated that tensions may arise between MNEs and their host LDCs as a result of each holding opposing perspectives on certain issues. That is, both parties define, categorise and interpret their priorities from divergent conceptual bases. In order to understand such divisions, this study needs to appreciate the factors which regulated the relationships evident in the case. As ethnography "show[s] how actions in one world make sense from the point of view of another world" (Nieswiadomy, 1993:152), it offers an appropriate research model.

Ethnography is a vehicle for investigating social interaction within and between groups. By examining the procedures which people use in constructing their social world (Abercrombie, Hill & Turner, 1984), individual elements of reality and behaviour may be identified to produce a "picture of the way of life of interacting human groups" (Bryman, 1988a:45). Thus, ethnography uncovers

connections, patterns, themes, or relationships that have meaning for the people in it. These themes include but are not limited to the shared knowledge, norms, values, belief systems, language, rituals, economics, role behaviours, or patterns of social interactions among members (Germain, 1986:148).

Using this information, the ethnographic researcher can expose and analyse existing social relationships in order to explain phenomena and develop theories concerning certain episodes (Field & Morse, 1985). Therefore, as a framework for research, ethnography is "theory-generating as contrasted with studies that are theory-testing" (Germain, 1986:149).

Although the traditional ethnographic process requires direct researcher involvement with their subjects (Taft, 1988), the retrospective nature of this inquiry precludes participation and/or observation. Accordingly, the case study method was adopted because it provides the social insight available from ethnography without situational involvement. Stablein (1996:519) terms this approach the 'ethno-case' which is "oriented to representing the native participants' reality". Wiseman (1993:137) similarly notes that

case study methodology ... is an approach to research which utilises ethnographic research methods to obtain and portray a 'rich' descriptive account of meanings and experiences of people in an identified social setting.

As this study seeks to investigate how social arrangements impact on MNE performance and interpret any findings to extend management theory, the ethnographic case study is an ideal research method.

### **The Case Study as a Research Method**

Walker (1980:33) describes case research as an "examination of an instance in action. ...incidents, events and information on biography, personality, intentions and values". Yin (1994:13) augments this with a 'technical' definition which differentiates case studies from other strategies. He explains that a case study is "an empirical inquiry which investigates a contemporary phenomenon"<sup>32</sup>

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<sup>32</sup> Yin's reference to a 'contemporary phenomenon' does not infer that case studies cannot be retrospective. Discussing an earlier edition of Yin's work, Rose (1991:197) explains that "Yin is seeking to distinguish the case study from the experiment and the history. While we may welcome the demarcation from the former, it is perhaps less satisfactory to exclude the latter". Case studies therefore, may be a vehicle by which one can use the past to study the present (Laurence, 1984).

within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident.”

The two elements of Yin's definition emphasise the flexibility of design and holism which case studies afford social investigation. Case studies are not a specific research technique, but “a way of organizing social data so as to preserve the unitary character of the social object being studied” (Goode & Hatt, 1952:331). Hakim (1987:61) concurs, noting that case studies

...take as their subject one or more *selected* examples of a social entity – such as communities, social groups, organisations, events, life histories, families, work teams, roles or relationships – that are studied using a *variety* of data collection techniques... Using a variety of data collection techniques and methods allows a more rounded, holistic, study than with any other design.

Being amenable to accumulating evidence from various sources and accessing social phenomena holistically, case studies have been widely applied to research in organisation studies (Dunkerley, 1988; Morgan & Smircich, 1980; Pettigrew, 1990; Pugh, 1988; Romano, 1990) and management studies (Boxall, 1996; Dowling & Welch, 1988; Dyer, 1984; Larsson, 1993; Storey, 1992).

### *The Purposes of Case Study Research*

Not being a prescribed research technique, the case study constitutes an amalgam of approaches which often overlap with other research designs, offering their combined and complementary strengths (Hakim, 1987). This eclecticism not only provides power and flexibility to the research effort but, as Stake (1994:236) explains, it also allows the study's design to be directed by what it is that can be learned from the case:

Case study is not methodological choice, but a choice of object to be studied. We choose to study the case... As a form of research, case study is defined by interest in individual cases, not by the methods of inquiry used.

Thus a researcher's purpose in studying a given case is the ultimate determinant of the methodology employed. Yin (1994) identifies three research purposes to which case studies may be applied: descriptive, exploratory, and explanatory.

The descriptive purpose of case studies is to produce a register of facts from which the researcher gleans evidence; it is the precursor of interpretation and theory development (Peshkin, 1993). By penetrating the subject's world and reporting the issues operating within and upon that world, a detailed portrait of social phenomena is available (Hakim, 1987). Van Maanen (1988:1) terms this portrait “a written representation of culture”. This is the ‘thick description’ of social experiences which is vital to naturalistic inquiry (Aamodt, 1991; Berg, 1989; Eisner, 1977). By identifying and describing social phenomena as they

evolve over time, case studies allow the research to “retain the holistic and meaningful characteristics of real-life events” (Yin, 1994:3).

The exploratory purpose of case studies is to examine social episodes in order to elicit the reality of the actors’ experiences. The researcher achieves this by using interpretation to draw contrasts and discriminations about the focal issues and wider influences inherent in the case. Of this, Ball reports

The analysis of case-study is essentially concerned with interpretation. That is, the translation of raw data into a coherent portrayal of an institution and of institutional processes. The process of interpretation involves the data coming to stand for and represent a field of reality as the basis for a ‘theoretical’ (or some other kind of) account of the setting (cited in Hammersley, Scarth & Webb, 1985:50).

Because the interpretive process in case study research enables propositions to be advanced from this accumulated evidence, this method provides an “excellent vehicle for the inductive development of new theory” (Walton, 1972:74). The value of case studies in theory building is also reported by Miles and Huberman (1994), Peshkin (1993), Vaughan (1992) and Yin (1994).

The explanatory purpose of case studies is to investigate data so as to determine causal relationships between phenomena present in the case (Hartley, 1994). Because case study research concentrates *post hoc* on the various issues which precede a known outcome, it enables the examination of processes (Schendel & Hofer, 1979). By inspecting antecedents (events, actions, contexts, or perceptions) to a given eventuality, case study research can “explain the causal links in real-life interventions” (Yin, 1994:15).

Because case studies may have a combination of goals (Williamson, Karp & Dalphin, 1977), the foregoing classifications are not mutually exclusive and researchers may expect large areas of overlap among them (Yin, 1994). Whilst this inquiry is exploratory in essence, elements of all the above purposes are embraced.

### *Criticisms of the Case Study Method*

Despite the benefits of case study research in advancing social inquiry, the approach has been criticised for lacking rigour. The major points of contention, which are addressed below, are: non-standard designs (Hamel, Dufour & Fortin, 1993), measures of reliability and validity (Guba & Lincoln, 1981; Stake, 1994, Stone, 1978), and verbose reports (Barnard, Magyary, Booth & Eyres, 1987).

Critics claim that the efficacy of case studies is constrained by the absence of a definitive, routinised model from which to conduct research. That is, they do not have a standard design. Smith's (1991a) observation is exemplary of this view:

...there is not a great deal of literature on the use of the case-study method, at least not under that title. Yet, many researchers refer to case-studies. This imbalance seems to reflect the low status of case-study research ... and the view that it is not a method as such. One can find references to research methods such as repertory grid or comparative analysis which then *produce* case-studies, but they are not conceived as forming part of case-study method (pp 150–151).

This argument implies that (i) case studies *should* follow a certain formula, and (ii) researchers *need* such a formula from which to work. In response to the first point, Schultz and Kerr (1986) hold that critics confuse case study as a type of design with the type of data collected. Thus, they advise that the case study method needs to be distinguished from the particular techniques by which data for cases is gathered. Concerning the second issue, the lack of a precise format is a strength of the method as it is this characteristic which provides the opportunity to vary the approach according to the purpose of the study. Aiming to build theories rather than test hypotheses (Eisenhardt, 1989), case studies provide "an empirical genre appropriately flexible, eclectic and capable of creating surprises" (Walker, 1983:155). As Hakim (1987:63) argues, freedom of methodological choice is not an impediment to inquiry, rather it is the feature which makes case studies "one of the most powerful research designs".

Reliability and validity are the properties by which researchers judge the confidence they place in their data. They originate from experimental studies in which error is controlled by comparing measurements with the true values of the original goal (Weiers, 1988). As qualitative inquiry does not include numeric or 'measurable' data, the following methods of confirming reliability and validity may be employed.

Reliability is "the degree to which a measurement is free from random or unstable error" (Emory & Cooper, 1991:185). In quantitative applications, this is gauged by the consistency of research instruments over repeated applications. Although replication in a single case study is impossible because "the operations involved depend upon the particular circumstances and events that occur within the case" (Bresnen, 1988:47), Marshall and Rossman (1989:148) suggest that researchers should keep thorough notes of their work, thus enabling

...others to inspect their procedures, protocols, and decisions. ...by keeping all data in well-organized, retrievable form, researchers can make them available easily if the findings are challenged or if another researcher wants to reanalyze the data.

Reliability in case studies therefore, is not found in reproducing the results of one case by doing another, but in the possibility of another party repeating or reconsidering that same case.

Whereas validity in quantitative tests is the extent to which a device "measures what it is designed to measure" (Spector, 1981:14), in the hypothetical constructs of social research, validity is "the degree to which we observe what we purport to observe" (Rosenthal & Rosnow, 1984:76). Yin (1994) proposes three approaches to assessing the validity of information obtained from case studies: construct validity, internal validity, and external validity.

Construct validity is inferred when the measure of a concept correlates with measures of other relevant concepts in a theoretically expected manner (Babbie, 1989). As clear operational measures are not available in theorising from social phenomena, Yin (1994) offers three tactics to increase construct validity in case study research: (i) using multiple sources of evidence; (ii) establishing a chain of evidence which links the questions asked, the data collected, and the conclusions drawn; and (iii) having key informants review the draft report.

Internal validity is "the extent to which the observed treatment effect in a study is causal" (Judd & Kenny, 1982:24). Whereas cause and effect may be directly noted in quantitative inquiry, the social realm is not amenable to such precise linkages (Krathwohl, 1985). Internal validity in qualitative research, particularly case studies, is susceptible to contamination by researchers allowing their own perceptions to influence the interpretation of data (Goode & Hatt, 1952; Neck, Godwin & Spencer, 1996). Thus researchers need to be vigilant in seeking deficiencies in their case work by scrutinising the data where doubt seems justified (Hammersley & Atkinson, 1983; Livingston, 1987; Williamson *et al.*, 1977) and using pattern-matching, triangulation and/or explanation-building to strengthen the accuracy of interpretation (Blaikie, 1991; Eisenhardt, 1989; McCutcheon & Meredith, 1993; Trochim, 1989; Yin, 1994). Notwithstanding, Denzin (1989) warns qualitative researchers against being detached from phenomena they explore, lest the reflexive value of social inquiry be diminished.

External validity is the "generalizability of the investigation's findings to other populations and to other environmental conditions" (LoBiondo-Wood & Haber, 1994:205). Although Osborne (1991) claims that case study research lacks external validity, Taft (1988) argues that results may be generalised to a wider

population provided that the case study is conducted rigorously. Barnard *et al.* (1987), Michelson and Baird (1995), and Yin (1994) hold that the method does not seek to produce universally applicable results, and claim that case studies are undertaken in order to generalise findings to theory rather than to generalising findings to populations. Smith (1991a:152) dismisses any need for generalisation on the grounds that it “can be a spurious basis for claiming validity”.

The final major criticism of case studies is that they result in desultory reports. Barnard *et al.* note, for example, that case study reports are “lengthy, rambling descriptive accounts” (1987:52). This diffuseness however, is a reflection of those who compose the reports rather than of the reports themselves. Bennis (1968:23) warns case writers to pay attention to “the very careful and rigorous process of description”. Case studies should “create reality by describing that reality”, thereby “the implicit is made explicit, the intuitive is made self evident and the abstract is made concrete” (Walker, 1983:163). Thus it behoves the researcher, through skilled communication, to reconstruct in the mind of the reader the composite issues and characterisations inherent in the case.

### **The Suitability of the Case Study Method in this Inquiry**

The adoption of case study methodology in this inquiry was governed by three factors: the outcomes of the literature review, the experience of Bougainville Copper Limited, and the purposes of the research.

#### *The Literature Review*

The literature review revealed that MNE performance is largely dependent on the ability of the firm to align its internal operations and systems with the wider environment, and that the probability of achieving such congruity decreases as business conditions in the host country diverges from those in the home country. As this study requires a research methodology that accounts for all the environmental factors which influence firm performance, a flexible approach which is receptive to emerging themes, unexpected relationships and new issues is necessary. The case study method embraces these qualities (Dyer, 1984; Eisenhardt, 1989). Yin’s (1994) definition, cited earlier, underscores the suitability of using a case study to investigate Bougainville Copper Limited: it allows the investigation of phenomena (BCL and its management) within its real-life context (the host society) when the boundaries between phenomena and context are not clear (as evident in the history presented in the case report).



### *Bougainville Copper Limited*

The mine which BCL operated was unique in terms of its history, size and organisation. Equally, the social and historical features of the Bougainvillean people are unique. These factors combined to create an exceptional situation. Case study research is appropriate to investigating BCL's experience, as this methodology is "eminently justifiable ... where the case is a rare or unique event" (Yin, 1994:44). Larsson (1993:1516) concurs:

The ability of case studies to deal with processual and multiple stakeholders considerations through using longitudinal, multisource data makes them well-suited for management inquiry into unique situations.

The fortunes of BCL cannot be considered as a single episode. The history of the company is entwined with Bougainville's particular characteristics, and evolved out of a dynamic, interlocking series of events and perspectives which can only be accessed by a longitudinal inquiry<sup>33</sup>. Rose (1991) advises that case study design is ideal for longitudinal research as it is amenable to both historical and processual aspects of investigation. Highlighting the work of Pettigrew (1973), Littler (1982) and Clark *et al.* (1988), all of whom used case studies in historical research, Rose (1991:199) explains that the

methodological principle underlying [case study] design is the belief that theoretical concerns of a processual form require a longitudinal research design, thereby enabling a social system to be explored as 'a continuing system with a past, a present and a future'.

Typically in longitudinal studies, the large number and diversity of variables present in the case history necessitate the truncation of the time span covered by the inquiry and/or the omission of certain contextual factors. As a result of these compromises, the findings of the research tend to be limited (Field & Morse, 1985). However, because the geographical, cultural, political, organisational and temporal perimeters of BCL's operation are self-defined, all relevant dimensions may be investigated completely. This property suits the single case study method which allows a research entity to be explicated and understood in its entirety (Yin, 1994).

### *The Purpose of the Research*

The descriptive, explanatory and exploratory purposes of this research are interrelated. The descriptive purpose is realised by creating thick descriptions of the issues and complexities of the case. This context-laden data, in turn, serves

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<sup>33</sup> In this study, longitudinal research does not refer to the collection of data over an extended period so as to observe trends, rather it concerns the examination of events as they occurred over time.

the exploratory requirements of the thesis as it informs the process of theory building (Strauss & Corbin, 1990) and contributes to the explanatory purpose by identifying any causal links which may be present (Yin, 1994).

Although the exploratory imperative is concerned with the discovery of theory from data, this study does not seek to generate grounded theory in which prior inquiry or the investigator's perspectives are excluded from the interpretive process (Glaser & Strauss, 1967). Chapter 2 shows that previous research informs the management of contextual issues in MNEs, and it was noted earlier that researchers should not be detached from the subject. Through the collection of data from multiple sources and by employing open coding (discussed at a later point), the case study method may be used to both illuminate issues which have not been identified previously, and to refine extant concepts (Yin, 1994).

## **CONDUCT OF THE RESEARCH**

The plan of this investigation is based on Yin's (1994) model for case study research. The processual order and content of the inquiry was modified to allow for the study's exploratory emphasis and to accommodate the single-case design. The research was sequenced as follows.

### **Selection of the Case**

Four factors influenced the selection of BCL as the focal case in this thesis.

The Bougainville operation became one of the world's largest mining ventures, and remained so until its forced abandonment after 18 years of production. As a case study, BCL is a notable example of innovation, success, and failure in international management. Researching an organisation which has encountered such profound experiences is supported by Pettigrew (1988):

...given the limited number of cases which can usually be studied, it makes sense to choose cases such as extreme situations and polar types in which the process of interest is "transparently observable." Thus, the goal of theoretical sampling is to choose cases which are likely to replicate or extend the emergent theory (Cited in Eisenhardt, 1989:537).

BCL provides a rare opportunity to examine the life of a large MNE in its entirety – from inception to closure. Unlike extant companies which are dynamic and constantly evolving, BCL presents a static model which affords the researcher access to a complete sequence of events in order to understand the challenges faced by management in an unfamiliar environment. As the BCL

experience has no parallel in international management, its research precludes a comparative approach (Eisenhardt, 1989) or attempts at replication logic (Yin, 1994), rather it adheres to Yin's (1994:39) rationale for a single case design, where "the case represents an extreme or unique case".

As the thesis aims to develop an understanding of managing organisations in diverse environments, it was essential that the management context of the subject MNE differed significantly from that of its home country. As emerging economies generally present an antithetical management setting to that found in industrialised nations, it was considered that the study of an Australian firm located in an LDC would provide a sharp contrast which allows for the identification of contextual variances. Operating in a province of Papua New Guinea<sup>34</sup>, BCL fulfilled this requirement.

Despite increasing corporate and academic attention being focussed on the Pacific Basin and acknowledgment that the Pacific Islands are an area of expanding international business with a growing MNE presence (Adler *et al.*, 1986; Fairbairn & Parry, 1986; Harris & Moran, 1996; Kaynak, 1989), very little management research has been undertaken in the island communities of Oceania<sup>35</sup>. According to Bailey (1994):

Oceania provides a unique opportunity to examine international management in developing economies within a colorful tapestry of cultural influences in a microscopic environment (pg. 63). In the early to mid-1980s some studies were conducted on the role of multinational and indigenous business in the Pacific. However, international management research has been almost nonexistent, although incalculable amounts of monies have been invested by foreign businesses and governments (pp 69–70).

As this investigation centres on Bougainville island, the study provides some redress to the paucity of management research in the region.

## Review of the Literature

The literature review is reported in Chapter 2. This covers 4 major topics: the development of MNEs and international management, the environment of international management, the relationship between MNEs and developing

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<sup>34</sup> From the defining characteristics of developing nations noted in Chapter 2, PNG may be classified as an LDC with a 'lower-middle' economy. Details of PNG's economic circumstances are recorded in Chapter 7.

<sup>35</sup> Oceania is the collective name for most of the 30,000 islands of the Pacific. Oceania is divided, by ethnic category, into Polynesia (includes American Samoa, Cook Islands, French Polynesia, Easter Island, Tonga, and Western Samoa), Micronesia (those islands located between Hawaii and the Philippines), and Melanesia (includes PNG, the Solomon Islands, New Caledonia, Vanuatu and Fiji). Australasia and the islands of Indonesia, the Philippines and Japan are not considered part of Oceania.

countries, and managing in LDCs. The examination of these topics defined the units of analysis, research questions and the appropriate research methodology.

### **Development of the Case Study Protocol**

The protocol documents the procedures to be employed in conducting case research. As well as describing each phase of the inquiry, the protocol assists in future considerations of the case by enabling other investigators to understand the methodology used. Yin (1994:63) reasons that a case study protocol is essential because it is “a major tactic in increasing the reliability of case study research and is intended to guide the investigator in carrying out the case study”. As the protocol was essential in identifying the critical elements required in the planning and execution of this thesis, it was devised prior to the commencement of any research activities. In essence, this document was used to determine the design of the research, the nature and direction of the data gathering process, and the basic form of the thesis. The protocol is detailed in Appendix A.

### **Preparing for Informant Interviews**

The specification of the respondents and data to be gathered emanated from the protocol. In order to obtain diverse perspectives, facilitate cross-checking of information, and recognise issues requiring further research, seven candidates were identified and approached as informants. To control the content and direction of the interviews, an interview guide (Appendix B) was prepared. This was based on the ‘elements for investigation’ and ‘data requirements’ identified in the protocol. Confidentiality and anonymity was assured to all participants. Of the potential respondents nominated in the protocol, only three participated, all of whom were former BCL executives. Another past manager assisted with the oral history by reviewing initial drafts of the case narrative, but declined an interview. One former executive, of his own volition, arranged for an Australian who was raised on Bougainville to participate in part of his interview<sup>36</sup>.

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<sup>36</sup> Numerous difficulties were experienced in eliciting responses from the nominated informants. Although CRA’s Public Relations Department provided some published material concerning the company’s experiences on Bougainville, requests for access to current personnel who may have been of assistance were firmly declined. Of the three journalists contacted (two from the print media and one radio/TV reporter), two ignored the researcher’s requests, and one agreed to review the case narrative but ultimately failed to do so. The academic also did not examine the case narrative after having agreed to assist. All attempts to contact the critical observer (Gabriel Lafitte, refer Appendix K) were fruitless. The bank executive was willing to review the case narrative and undertake an interview, but died before either could be realised. In addition to the respondents noted in the protocol, Sir Michael Somare was approached when he visited Tasmania in 1996 but, upon learning of the subject of the interview, he refused an audience with the researcher.

Transcripts of the interviews, which were conducted in June 1998, are recorded in Appendix V.

Although respondent participation was low, the research effort was not impaired because those informants who assisted with the inquiry had an intimate knowledge of the subject. As Patton (1990:185) notes "The validity, meaningfulness and insights generated from qualitative research have more to do with the information richness of the case...than with sample size."

### **Researching the Case**

The case was researched over three years, and was conducted in accordance with the steps identified in the 'research design' procedure of the protocol. This process is detailed below.

#### *Combining the Research Purpose with the Research Questions*

By considering the research questions within the descriptive, exploratory and explanatory purposes of the study, a suitable method of data collection and examination was exposed. This, in turn, provided a map for the research process. For each of the three purposes, the data were interrogated in the following manner.

In preparing the case report, the reality of each issue was elicited by composing thick descriptions of the subjects' views as noted previously. This was achieved by asking 'what' and 'how' questions which preserve "the meaningfulness of the phenomenon as a complex real-life process" (Barnard *et al.*, 1987:53). Exploration was achieved by posing 'what' questions as these are an ideal vehicle for developing hypotheses (Yin, 1994). The subtle difference between descriptive and exploratory 'what' questions lay in their thrust; whereas the former sought to understand the subjects' reality, the latter looked at the subjects themselves or the objects they encountered. Because questions asking 'how' and 'why' can access causal links between certain phenomena, they were used in the explanatory aims of the study (Yin, 1994). The explanatory 'how' was distinguished from the descriptive 'how' by its focus on observable phenomena rather than human perceptions of reality.

The interrogative process described above was applied to each piece of information as it emerged during the collection and analysis of the data. Some information demanded a single focus of inquiry, while others were multi-

dimensional. In those instances where material displayed both descriptive and explanatory elements, it was interrogated twice.

### *Units of Analysis*

The selection of units of analysis depends on the “way the initial research questions have been defined” (Yin, 1994:22). The primary unit of analysis which emerges from the research questions in this thesis is ‘The management of an MNE operating in a divergent environment’. As the research concerns both internal and external environmental components, each dimension was subsumed as secondary units of analysis. These are labelled ‘The host society’ and ‘Outsiders’ (external factors), and ‘The organisation and management of the mine’ (internal factors). Because interpretation of the environmental factors relied on understanding the attitudes, values and behaviours of the actors, a subordinate level of units of analysis was produced. Yin (1994:41) terms the use of several units of analysis in a single case is the “embedded case study design”. The logic of multilevel analysis is explained by Burstein (1988:776):

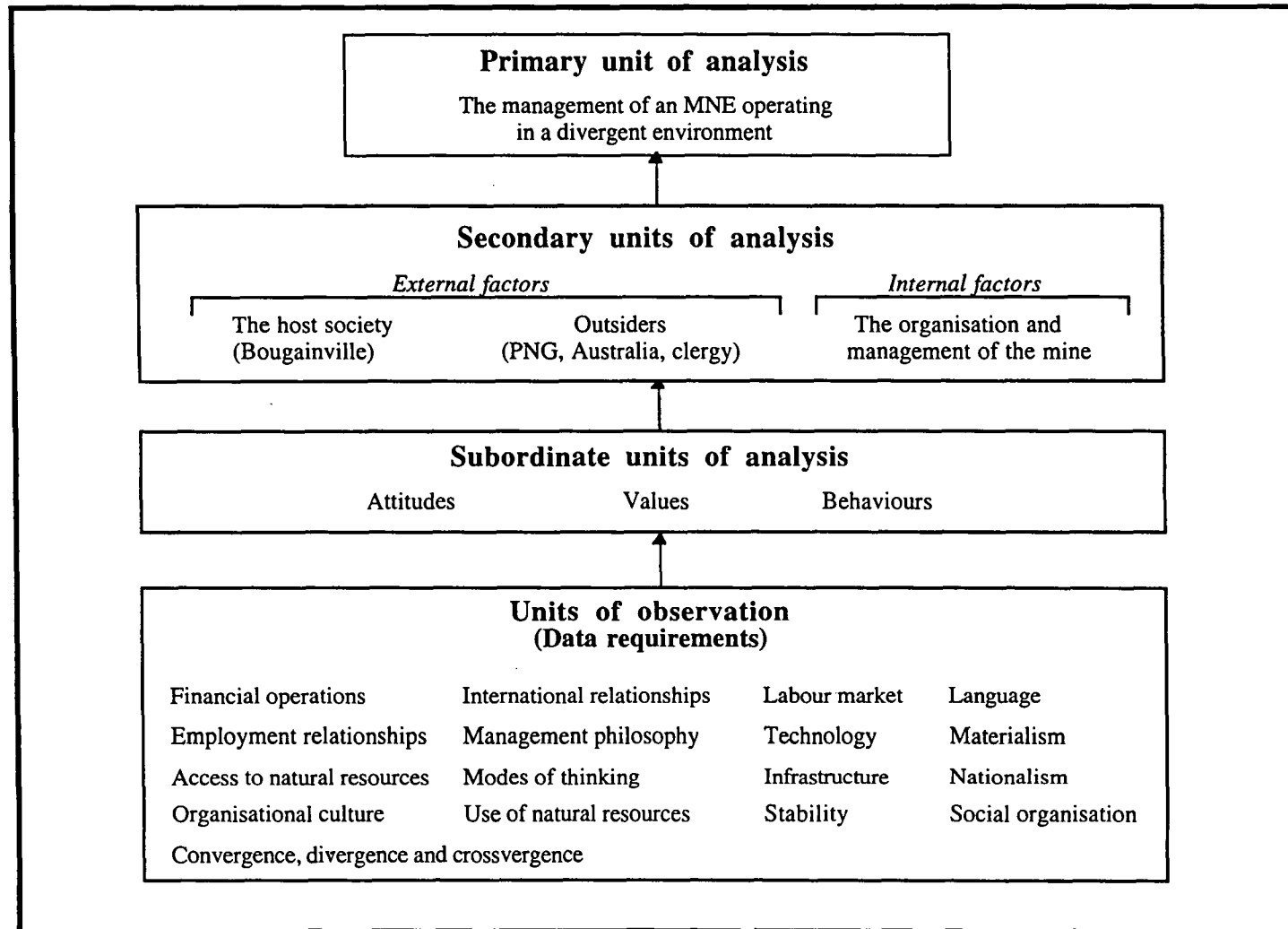
Data collected on units at a lower level ... can be aggregated to yield a characteristic of a unit at a higher level... This characteristic may take on special meaning at the higher level or simply be indicative of aggregated lower level properties.

Figure 3.1 has been developed to depict the hierarchical nature of the units of analysis identified for this thesis. This figure demonstrates that the subordinate units of analysis were informed by the data requirements identified in the protocol. Babbie (1989:294) describes research data requirements as “units of observation”. Hence the inquiry moved ‘up’ the hierarchy from researching the units of observation to understanding the primary unit of analysis. The benefits of using an inter-linking hierarchy of units of analysis are described by Knafl and Breitmayer (1991:235), who report that the merging of levels of analysis contributes to “a more complete understanding of the phenomenon being studied. The usefulness of incorporating more than one level of analysis is especially apparent in studies of ... organized groups and communities”.

### *Data Collection*

In order to fully explore the issues which emerged from the case and to verify the information obtained, various data gathering techniques were used. Known as triangulation, this approach is recommended by Hakim (1987), Patton (1987), Yin (1994) and Punch (1994). The choice of data collection instruments was narrowed by the requirements of the study (Marshall & Rossman, 1989)

**Figure 3.1 Array of Units of Analysis used in this Thesis**



and access to the necessary information (Hammersley & Atkinson, 1983). As the researcher was precluded from direct access to the Bougainvillean people<sup>37</sup>, data were assembled from documents, oral histories and interviews with past executives of the mine as described below.

Because documentary records are a fundamental resource for historical social inquiry (Calvert, 1991), the initial draft of the case narrative was composed from published accounts of Bougainville, BCL and the mine. By reconstructing the past, contextual factors of the mining operation were assembled and clarified, and information was gleaned for further examination. Marshall and Rossman (1989:95) suggest researchers commence the data gathering process with historical material, as it is "useful for establishing a baseline or background prior to interviewing".

Documentary material is classified as either a primary or secondary source:

*Primary sources* are ... documents that were produced by the people being studied during the time when the action you are studying was actually in progress. *Secondary sources* are ... documents written after the event or by someone who was not personally a witness of the events (Calvert, 1991:119–120).

The distinction is significant as it defines the proximity of the document's author to the subject matter. Whereas primary sources record the direct observations of involved parties, secondary sources are the remote observations of third parties. As the distance of secondary sources may decrease validity and reliability, primary sources are preferred (Williamson *et al.*, 1977). The strength of secondary sources however, lie in their authors' probable access to data which was not available to observers at the time (Calvert, 1991). This study incorporates primary and secondary documents as appropriate and available, with validation mechanisms to control validity and reliability.

In oral histories, informants tell their own story in their own way, thereby giving researchers direct access to the experience of the case (Clandinin & Connelly, 1994). These highly individualised accounts strengthen the inquiry by (i) counteracting any bias that may exist in documents (Burgess, 1982b), (ii) adding matters of fact or detail which are only recorded in people's memories (Samuel, 1982), and (iii) giving voice to those not usually heard (Fontana & Frey, 1994). Oral histories assisted this inquiry in each of these areas because

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<sup>37</sup> At the time of the research, Bougainville was an active war zone; the PNG government denied entry to all non-essential foreigners and many Bougainvilleans were extremely hostile to outsiders. Locating a representative sample of repatriated Australian mine workers was not possible as BCL's personnel records were not available to the writer, and locating Bougainvilleans resident in Australia proved impossible.



they enabled the researcher to access facets of the case which would not have been available by any other data gathering technique<sup>38</sup>.

The researcher needed to look behind and beyond the facts contained in the written histories by gaining an insight into the informants' interpretation of the issues. Hutchinson (1986:115) reasons that the interview is the most effective method to achieve this as it "serves to clarify the meanings the participants themselves attribute to a given situation [thereby helping] the researcher understand the problem through the eyes of the participants".

A standardised interview guide (Appendix B) was used for all informants. This facilitated the aggregation, analysis and validation of information, and enabled the researcher to interrogate evidence gained from other sources. The questions were designed to cover the necessary issues, but were framed in an open-ended manner so as to allow the interviewees sufficient latitude for introspection and open reporting of their own perspectives. As a result, the informants were free to pursue those matters which they considered important. Semi-structured interviews are recommended by Selltiz, Wrightsman and Cook (1976:318) because

interviewers have the freedom to explore reasons and motives, to probe further in directions that were unanticipated [and] although the respondent is free to express his or her own line of thought, the direction of the interview is clearly in the hands of the interviewer.

In conducting the interviews, the researcher used the principles of active and reflective listening (Geldard, 1993; Kennedy, 1977; Rogers, 1951), and the sessions followed the sequencing, techniques and conventions of traditional interview design (Field & Morse, 1985; Simons, 1981; Zima, 1991). With the permission of the participants, each interview was recorded on tape.

## **Case Analysis**

The purpose of case analysis is to summarise observations in such a manner that they yield answers to the research question (Selltiz *et al.*, 1976). As recommended by Miles and Huberman (1994), data in this study were analysed continuously throughout the data gathering procedure. By treating information as it evolved from the documents, oral histories and interviews, contradictions

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<sup>38</sup> In this thesis, oral histories took two forms. The first tapped the respondents' recollections of events by having them assess the researcher's initial drafts of the case narrative and commenting thereupon. This activity also assisted in the validation process. The second - and more traditional - was by listening to informants recount the story of the Bougainville mine as they 'saw' it. This activity was integrated with the interview process.

were isolated, missing data were identified and alternative explanations sought. The process and sequence of the case analysis appears below.

### *Editing the Data*

Data are edited to ensure that they "are accurate, consistent with other information, uniformly entered, complete, and arranged to facilitate coding and tabulation" (Emory & Cooper, 1991:450). Editing was carried out in the following manner on all information as it emerged from the documentary records, oral histories and interviews.

As primary and secondary documents were generally limited to the 'hard' facts of the case, editing at this stage was primarily concerned with searching for inconsistencies and omissions within and amongst the manuscripts, as well as organising data in preparation for coding and categorisation. This was done as material was considered for inclusion in the case report. A particular difficulty was determining the neutrality of the authors. This was afforded close attention in the verification process, and instances of explicit bias were discarded.

Because oral histories were obtained in two stages, two editing procedures were implemented. In the first instance, the early drafts of the case report were amended and augmented according to the informants' review of the narrative. This was particularly helpful in identifying omissions and inconsistencies as these people possessed an intimacy with the case which was not available from other sources. The data emanating from the oral histories incorporated in the interviews were edited simultaneously with the interviews as described below.

As recommended by Selltiz *et al.* (1976), the tapes were transcribed immediately after the interviews. This enabled the researcher to account for the content and context of the exchange. The interview transcripts (Appendix V) served to (i) recapture the essence of the exchange, and to allow reflection on the meaning of what the respondent had said, (ii) force the researcher to reflect on the relationship between what had been recorded and the aims of the study, (iii) determine what material was relevant and thus worthy of coding, and (iv) make preparatory coding decisions. The completed transcripts were submitted to the informants for verification of accuracy.

The editing process revealed material omissions in a number of the documentary records, the majority of which related to unrecorded periods in particular reports. Occasionally, accounts displayed a paucity of detail in, and explanation

of, the events under review. Inconsistencies within individual records were negligible, as was the incidence of one account being substantially inconsonant with another. The majority of these difficulties were rectified by reference to further documents, with the remainder being clarified during the interviews. The oral histories and interviews contained no contradictions, therefore the editing of these procedures was confined to data organisation.

### *Categorisation and Coding*

Categorisation organises various dimensions of the data by grouping together attributes which relate to the concepts being examined. By devising categories which were mutually exclusive, exhaustive, and based on a single classificatory principle (Selltiz *et al.*, 1976), aspects of the data were clustered to facilitate the interpretive process. The previously noted units of analysis served as categories, and by considering their lateral and vertical relationships, the data were progressively distilled through interpretation and comparison as they ascended the hierarchy depicted in Figure 3.1.

Coding is the appointing of emblems to salient elements in the data in order to assign them to an appropriate category. This exercise simplifies the handling and interpretation of information by introducing 'rules of order' to the treatment of data. Code definition and labelling must (i) be consistent across the entire data bank, (ii) indicate precisely what information is constituted by each code, and (iii) align with the locus of the inquiry (Fleet & Cambourne, 1989). A portion of the coding system used in this inquiry is shown in Table 3.2. This excerpt refers to codes relating to the attitudes displayed by the various parties involved in the Bougainville mining venture, into which relevant phenomena from the various units of observation were apportioned. The complete coding system is detailed in Appendix C.

**Table 3.2 Data Codes (Partial)**

Coding	Phenomenon
1	Attitudes
1 1	Attitudes/Bougainvilleans
1 2	Attitudes/Outsiders (Outsiders: non-B'villean, but not mine mgmt)
1 2 1	Attitudes/Outsiders/PNG
1 2 2	Attitudes/Outsiders/Others (Others: Australia, foreigners & clergy)
1 3	Attitudes/Management

As suggested by Miles and Huberman (1994), codes were assigned throughout the entire data gathering process of the research. This allowed for the discovery of issues for further investigation, the refocussing of the research questions, the generation of additional codes, and the refining of existing codes.

Because statistical analysis fails to address the needs of doing analysis at the level of the whole case (Yin, 1994), only minor emphasis was placed on the enumeration of frequencies. Instead, the data were combed for aspects of relevance to the research questions. This was achieved by following the principles suggested by Becker and Geer (1982:245–246):

- The coding should be inclusive. That is, any incident should be coded under a category, if there is initially any reason to believe that it might be considered relevant. Many incidents will, therefore, be coded under several categories, for they may be relevant to all of them. An incident which on later analysis proves to be irrelevant can simply be discarded.
- The coding should be by incidents: either complete verbal expressions or complete acts by an individual or group.
- The coding should be full. That is, the incident being coded should be summarised in all its relevant detail: the ideas expressed, the actions taken, the people present, the date and the setting.

As suggested by Babbie (1989), when coding the data, all elements were inspected for their visible, surface components (manifest constituents) and any meanings which might underlie the visible elements (latent constituents).

Collectively, the coded incidents defined the essential situations and factors embedded in the units of observation. By summarising and describing the fundamental characteristics of these units, their bearing on the study was illuminated and the relationships between them were assessed.

### *Interpretation*

In this research, nine tactics were employed for drawing meaning from the data. Based on strategies proposed by Miles and Huberman (1994) and augmented with material from various authorities, these tactics are summarised in Table 3.3. The information in this table is arranged from the descriptive to the explanatory, and moves from the concrete to the abstract. As these procedures are not all mutually exclusive, there was some overlap in their application.

### *Verification of Conclusions*

The verification process used in this study emanates from the previously discussed concerns regarding reliability and validity. While Altheide and

**Table 3.3 Processes for Data Interpretation**

<i><b>Tactic</b></i>	<i><b>Procedure</b></i>
Noting patterns and themes.	Gestalt psychology holds that, in observing phenomena, people perceive entire events rather than their constituent elements (Avery & Baker, 1990). Thus, as data were interrogated, recurring patterns and themes were noted in order to consolidate individual facets of the information. Miles and Huberman (1994) propose that the recognition of thematic forms is virtually automatic in the human mind.
Seeking plausibility.	Of drawing inferences from apparently plausible explanations, Miles and Huberman (1994:246) suggest that "it often happens during analysis that a conclusion is plausible, 'makes good sense', 'fits' ... so plausibility, and intuition as the underlying basis for it, is [valuable]." They warn however, that plausibility only indicates possible explanations and any conclusions made should be substantiated by other means.
Clustering.	Clustering aids interpretation by grouping, then conceptualizing, objects that have similar characteristics (Miles & Huberman, 1994). In this research, initial clustering formed part of the coding process, followed by the grouping of more abstract elements during analysis. Clustering is based on content analysis, which is a method of categorising data when analyzing an interview or a document" (Wilson, 1985:408).
Subsuming particulars into the general.	The analyst "shuttle[s] back and forth between first level data and more general categories ... until the category is saturated" (Miles & Huberman, 1994:256). By making 'constant comparisons' across data, instances of similar phenomena may be categorised (Leininger, 1987). This approach was an integral part of category development in the analytic and theory building processes of this thesis.
Factoring.	Factor analysis reduces the number of variables by identifying which belong together and which seem to measure the same phenomenon. By searching for patterns in the data, researchers are "hypothesizing that some disparate facts or words do something in common or are something in common. What they do or are is the "factor", and the process by which we generate it is "factoring"" (Miles & Huberman, 1994:256).
Noting relationships between variables.	Determining relationships between variables involves examining data to ascertain if certain variables (i) change directly (an increase or decrease in one variable causes a corresponding increase or decrease in another), (ii) change inversely (one variable increases as another decreases), or (iii) indicate no relationship at all. This process was essential to the explanatory purpose of this study as it revealed causality.
Finding intervening variables.	An intervening variable is a "factor which theoretically affects the observed phenomenon but cannot be seen ... its effect must be inferred from the effects of the independent and moderator variables on the observed phenomenon" (Tuckman, 1972:45). When variables in this inquiry seemed to be related but provided an unsatisfactory explanation, the data was searched for possible intervening variables.
Building a logical chain of evidence.	This involves the development of a related sequence of factors so that prior elements of the chain are related logically to subsequent elements (Sowden & Keeves, 1988). According to Miles and Huberman (1994:261), "this is the classic procedure of analytic induction"
Making conceptual or theoretical coherence.	Having gleaned evidence from the data which appeared to form converging patterns and identify causal relationships, theory was inducted from that evidence (Miles & Huberman, 1994). This tactic linked evidence with theoretical propositions which explained the phenomena in the case.

Johnson (1994) argue that methods for establishing confidence in qualitative research are poorly defined, other scholars submit a number of tactics for verifying the outcomes of qualitative research. Those employed in this thesis are outlined in Table 3.4. These tests were applied progressively during the interpretation process in accordance with the suggestion of Webb, Campbell, Schwartz and Sechrest (1966:66) that researchers should

begin with tactics that are aimed at assuring the basic quality of the data, then move to those that check findings by various contrasts, then conclude with tactics that take a sceptical, demanding approach to emerging explanations.

Where possible, a variety of these tests were used for each outcome and, as a result, the rigour of both the methodology and findings were significantly enhanced.

### **Mode of Analysis**

The data interpretation and verification processes (refer Tables 3.3 and 3.4) were facilitated by QSR NUD\*IST 4<sup>39</sup> software. Using this program to store, manage and analyse data enabled the researcher to realise the exploratory and explanatory purposes of the study. The application of computer based analysis in social research is recommended by Padilla (1991), Richards and Richards (1991), Richards, Richards, McGalliard and Sharrock (1992), and Tesch (1990). From the various programs available, NUD\*IST was selected as it incorporated those properties recommended by Miles and Huberman (1994); namely capability, good displays of coding scheme structures, the generation of taxonomies, and the ability of theory formulation and testing. Ticehurst and Veal (1999:106) note that NUD\*IST is “currently considered to be the most sophisticated package available”. Richards and Richards (1994) warn however, that the techniques of qualitative investigation are not typical of the processes which computers easily support, and therefore no program can provide categorical solutions to the problems encountered by interpretive researchers.

The essential elements of the interpretation and verification procedures, using NUD\*IST, were as follows.

The interview transcripts (Appendix V) were introduced to the NUD\*IST program, following which the categories (discussed above) were established as

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<sup>39</sup> QSR NUD\*IST 4 is a registered trademark of Qualitative Solutions and Research Pty. Ltd. Copyright 1997. NUD\*IST is an acronym of Non-numerical Unstructured Data Indexing Searching and Theorizing. Hereafter, QSR NUD\*IST 4 is abbreviated in the text to ‘NUD\*IST’.

**Table 3.4 Processes for Verifying Conclusions**

<i>Tactic</i>	<i>Procedure</i>
Checking for representativeness.	During the interpretive process, information from nonrepresentative sources was scrutinised, nonrepresentative events were eliminated from the analysis, and no conclusions were drawn from nonrepresentative data.
Checking for researcher effects.	Researcher influence on data analysis is a concern in all qualitative inquiry (Coe, 1991). Potential sources of contamination in this study were: (i) holistic fallacy, whereby extreme evidence is ignored so data are interpreted as being more patterned or having greater congruence than they actually are (Sieber, 1982); (ii) going native, whereby good researcher-informant relationships preclude the pursuit of further investigation lest it damages the rapport between the parties (Hammersley & Atkinson, 1983); and (iii) over-reliance on particular well informed respondents (Marshall & Rossman, 1989). These influences were minimised by considering the material presented by a wide range of data sources.
Triangulating.	Triangulation is using a "combination of methodologies in the study of the same phenomenon" (Denzin, cited in Jick, 1984:364), and may be applied to both data and theories (Hakim, 1987). Data triangulation was achieved by gathering material from a wide variety of sources. Theory triangulation engages "multiple perspectives to interpret a single set of data" (Janesick, 1994:214). This was applied by using Adelman's (1981) model in which the researcher interprets the data emanating from each source, and then compares the conclusions with the views of others.
Weighting the evidence.	To account for the fact that some data were weaker or more suspect than others, the inquiry followed Miles and Huberman's (1994) suggestion that differential weightings be applied to the data according to (i) informant characteristics (e.g., knowledge of/proximity to events) and (ii) circumstances under which data are gathered (e.g., direct or vicarious reports, volunteered or prompted material, single or multiple informants).
Ruling out spurious relationships.	Explanatory conclusions depend on inferences drawn which suggest that one factor causes the other. Kidder and Judd (1986) recommend that researchers inspect each apparent causality in order to ascertain that other causal processes have not produced the inferred relationship.
Checking out rival explanations.	As advised by Miles and Huberman (1994), no explanations were accepted until all possibilities had been explored. On finding alternative explanations, resolution between competing analyses was reached by retaining all probable explanations until one became more compelling as the result of stronger evidence or the weight of various sources of evidence. Clark and Causer (1991) warn however, that the identification of one 'best' explanation may not be possible or desirable as ambiguous findings may accurately capture the reality of the situation.
Looking for negative evidence.	Yin (1994) notes that all conclusions should be interrogated for evidence which might disprove an established result, thus this inquiry remained open to contrary findings. The search for countervailing evidence confirmed some interpretations but, as Miles and Huberman (1994) suggest, failure to identify same did not necessarily establish factual conclusions.
Getting feedback from informants.	Part of the triangulation process, this check involved the informants reviewing drafts of the case reports. Yin (1994) emphasises the importance of this test as a way of corroborating the essential facts and evidence presented in the case report and enhancing the study's construct validity.
Comparing and contrasting variables.	Sowden and Keeves (1988:525) inform that making comparisons and contrasts between persons, cases, groups, roles, activities and sites significantly assists the verification process. This approach was widely applied in this research.

a series of nodes within an index system which the software depicts as a 'tree'. The tree is reproduced in Appendix D. The generation of categories and subsequent coding occurred in two stages.

### *Stage One Coding*

The initial categories were based on the subordinate units of analysis shown in Figure 3.1; that is, the characteristics of the case entities which the researcher sought to understand. These appear as nodes 1, 2 and 3 in the tree. The secondary units of analysis ('The host society', 'Outsiders', and 'The organisation and management of the mine') were then attached to each of these nodes as sub-categories. The parties' operating environment was then established as node 4, and this was further divided into the sub-categories 'External factors' and 'Internal factors'. The interview transcripts were then scrutinised for significant terms, events and issues located therein according to the 'Units of Observation' and coded according to the index system. NUD\*IST then searched the text and allocated segments of the data to their designated node. A sample of this process is recorded in Appendix F which shows the values the management of the mine appeared to embrace in its dealings with the Bougainvilleans (that is, the content of node 2.3 – values/management). Where appropriate, data were allocated to more than one node.

### *Stage Two Coding*

Node 5 (Results) was then established. Unlike nodes 1–4, this node was not determined by the units of analysis, rather it served to group together the outcomes of further analysis. NUD\*IST searched the preliminary coding (that is, the contents of all nodes established in Stage One) for those factors which were common to the various actors' characteristics and the environment. The results were assigned to sub-categories of node 5. The development of these sub-categories was flexible, as they were founded on data as it emerged from the search. A sample of this process is recorded in Appendix G which shows the mutual elements of the values held by mine management and the legal dimension of the external environment (that is, the intersection of node 2.3 (values/management) and node 4.2.1 (environment/external/legal)).

Memos were kept to facilitate theory building at a later point. These were informal notes were made about the data, categories and relationships as they emerged. Designed to store and organise ideas about the data, they were eventually integrated into the analytic process. Wilson (1985:420) reports that memos assist in the development of theory in five ways:



1. They require that you move your thinking about the idea to a conceptual level.
2. They summarise the properties of each category so that you can begin to construct operational definitions.
3. They summarise propositions about relationships between categories and their propositions.
4. They begin to integrate categories with clusters of other categories.
5. They relate your analysis to other theories.

NUD\*IST has a facility for the retention of memos at appropriate nodes for later consideration and analysis.

Using these memos, the reports generated by the software during Stage Two coding, and the material presented in the case narrative (Chapters 4, 5 and 6), the data were analysed according to the techniques described in Tables 3.3 and 3.4. From this, interaction between the parties became clearer, the context of various phenomena surfaced, causes and effects were revealed, and motivations were exposed. The manner in which this material was used to develop the outcomes of the study are presented in the next section.

### **Developing Outcomes**

In line with the stated research purposes, the analysis led to descriptive, exploratory and explanatory outcomes. These were achieved in the following manner, using the interpretation tactics discussed above.

#### *The Descriptive Outcome*

The case report appears in Chapters 4, 5 and 6. To meet the report criteria noted in the protocol, and to elicit the thick descriptions required of qualitative research, the report presents a detailed biography of Bougainville and the mine as it has been observed by over 120 commentators<sup>40</sup> spanning a 200 year period.

The role of description in qualitative inquiry extends beyond a narration of the phenomena of the case. It presents the "issues or themes which are core to the analysis, either as a way of illustrating a particular sub-theme within the overall analysis or as a vehicle for indicating the way a range of issues come together" (Allan, 1991:186). The issues and themes in this study were context bound, and thus their purposes and meanings could not be captured without first understanding their origins. The complexity of BCL's internal and external environments could only be comprehended by producing thick descriptions of the contextual elements, thereby affording the researcher a vicarious experience

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<sup>40</sup> Detail of the sources of information used in the case report are noted in Appendix E.

of the situation. This approach is recommended by Guba and Lincoln (1989). The literal and deep accounts of time, place, culture, and so forth embedded in the report facilitated interpretation of the subjects' attitudes and values from their concrete behavioural displays. From these translations, analytical judgments concerning the research questions were made, possible working hypotheses were generated, and causal relationships were identified.

Because outcomes imputed from the interpretive process essentially belong to the researcher rather than the subjects, guarantees of complete accuracy are not possible. This is a recognised property of qualitative inquiry:

There is no such thing as absolute truth. All the most objective researcher can report is his version of the actions and decisions of others and how they see their world. No one has the final word on this (Wiseman, 1979:119).

In most instances however, the researcher's deductions were confirmed by the verification procedure discussed previously.

As no research can incorporate all aspects of a case, the report in this thesis is incomplete. The abridgment of peripheral data did not diminish the interpretive value of the investigation however. Addressing this issue, Hughes (1980:85) observes:

although descriptions have a fringe of incompleteness about them ... this does not impair their ability to do the job, since nothing like completeness is ever attempted by the speaker of a natural language. Often a single descriptor will provide an adequate description ... the remaining particulars being, as it were, bracketed away for present purposes or their sense 'filled in' using the specifics of the context in which they are used.

Being the instrument through which the phenomena of an episode are exposed (Sekaran, 1992), the descriptive component is clearly the keystone of case study research. Having identified the phenomena of the Bougainville case, the researcher could, as suggested by Polit and Hungler (1993), investigate the dimensions, manifestations and relationships of those phenomena. This is discussed below.

### *The Exploratory Outcome*

The distinguishing feature of inductive inquiry is that theoretical concepts emerge *from* the case data, rather than being imposed *upon* it (Delbridge & Kirkpatrick, 1994). Inductive research stems from symbolic interaction (Chenitz & Swanson, 1986), a theoretical model in which investigation focuses on the ways people transmit and interpret meanings through the use of

symbols<sup>41</sup>. By viewing the subjects' behaviour from this perspective, theories and propositions about social and psychological phenomena can be derived from the data of social research.

Emanating from meanings extracted from narrative data, the findings of previous studies, and researcher preconceptions, inductive research may "not offer the comfortable, concrete reassurance that the hypothetico-deductive approach offers" (Smith, 1991b:222) but inductive theory building does produce valuable research outcomes which are less sterile than hypothesis testing (Lundberg, 1984). The generation of theory from case evidence in this study used four procedures: category development and saturation, linking categories, testing emerging relationships, and connecting with existing theory. Each is described briefly below.

As noted previously, category development was executed using NUD\*IST software. During the coding process, data were assigned to emerging categories to build a hierarchy of 'units of analysis'. In this procedure, elements of

identified categories are accumulated until it becomes clear to the researcher those properties and characteristics of the elements which fit into that particular category. The researcher can then identify the criteria for further instances that would fit the specific category. A category is saturated when no new information on the characteristics of the category is forthcoming (Field & Morse, 1985:111–112).

Once a category was saturated, a definition based on its inherent properties was formulated so as to direct further data collection and stimulate theoretical reflection. Categories were refined, produced and discarded as required. Instances which did not fit a category's criteria were continually sought.

The links between the various categories were identified by NUD\*IST and integrated at Node 5 (Results). Scrutiny of the Node 5 reports facilitated consideration of preliminary hypotheses, as recommended by Eisenhardt (1989:541):

From the within-site analysis ... overall impressions, tentative themes, concepts, and possible relationships between variables begin to emerge. The next step of this highly iterative process is to compare systematically the emergent frame with the evidence from [the] case in order to assess how well or poorly it fits with case data.

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<sup>41</sup> Symbolic interactionism has its intellectual roots in the concept of the self as developed by G. H. Mead who argued that reflexivity was crucial to the self as a social phenomenon. Social life depends on our ability to imagine ourselves in other social roles, and this taking the role of the other depends on our capacity for an internal conversation with ourselves. Society was conceived by Mead as an exchange of gestures which involves the use of symbols. Symbolic interactionism is thus the study of the self-society relationship as a process of symbolic communications between social actors (Abercrombie *et al.*, 1984:215).

To test emerging relationships, key variables within the 'Results' reports were identified and studied to ensure relationships held within and between categories. Although Eisenhardt's (1989:542) discussion of this process focuses on the multiple case study method, the principle holds for single case designs. Rather than testing relationships between cases, the relationships between individual perspectives were investigated:

A [further] step in shaping hypotheses is verifying that the emergent relationships between constructs fit with the evidence in each case. Sometimes a relationship is confirmed by the case evidence, while other times it is revised, disconfirmed, or thrown out for insufficient evidence. This verification process is similar to that in traditional hypothesis testing research.

Emerging hypotheses were then compared and contrasted with existing theory. This imperative is emphasised by Eisenhardt (1989:544):

Examining literature which conflicts with the emergent theory is important for two reasons. First, if researchers ignore conflicting findings, then confidence in the findings is reduced. Second ... conflicting literature presents an opportunity. The juxtaposition ... forces researchers into a more creative, framebreaking mode of thinking... The result can be deeper insight into both the emergent theory and the conflicting literature... Literature discussing similar findings ... ties together underlying similarities in phenomena normally not associated with each other. The result is often a theory with stronger internal validity, wider generalizability, and higher conceptual level.

Eisenhardt's approach approximates Yin's (1994) tactic of pattern-matching in which empirically based patterns coincide with or contradict predicted patterns.

In summarising the exploratory process in case research, Hartwig and Dearing (1979:9) underscore the procedures discussed above: "The underlying assumption of the exploratory approach is that the more one knows about the data, the more effectively data can be used to develop, test, and refine theory."

### *The Explanatory Outcome*

In scientific research, causal relationships are determined by hypothesising that one construct causes another; that is, at least one independent variable provokes the occurrence of the dependent variable. In qualitative inquiry, explanation rests on the same premise, however it proceeds from the phenomena observed in the case description (Williamson *et al.*, 1977). Due to the complexity of causal links and the imprecise measures inherent in the interpretive approach, the explanatory process relies on deriving, organizing, and integrating ideas about the manner in which phenomena are interrelated, and which offer understanding of the underlying causes of phenomena (Polit & Hungler, 1993).

Warning that the process of explanation-building from case studies is not well documented, Yin (1994:111) suggests that the final explanation results from a series of iterations, and recommends the following procedure:

- Making an initial theoretical statement or an initial proposition...
- Comparing the findings of *an initial case* against such a statement or proposition
- Revising the statement or proposition
- Comparing other details of the case against the revision
- Again revising the statement or proposition
- Comparing the revision to the facts of a *second, third, or more cases*
- Repeating this process as many times as is needed.

Although Yin's process refers to multiple case studies, its basic features were applied to this research. Because explanatory research invariably leads to alternative conclusions about the same set of results (Brown & Harris, 1978), Yin's iterative approach clarified the outcomes by consolidating some findings and discounting others.

In order to achieve an holistic understanding, and because social phenomena evolve over time, it was vital that this inquiry investigate the events which preceded the matters under review. As Hakim (1987:65) notes, a major strength of case study research is its ability to provide "an unusually detailed exploration of all possible causes, determinants, processes and experiences that might have contributed ... to the known outcome".

## CHAPTER SUMMARY

This chapter has described the methodological issues relating to the research. Based on the need for an ethnographic strategy, the single case study method was used to address the descriptive, exploratory and explanatory purposes of the inquiry. A protocol was developed to guide the investigation and to assist in any further consideration of the case. Information was obtained utilising documentary records, oral histories and largely unstructured interviews. Verification was elemental to the study and was engaged at every stage of the inquiry. The processual elements were particularly influenced by Eisenhardt (1989), Miles and Huberman (1994) and Yin (1994). The categorisation, coding and analysis of the case data were executed on NUD\*IST software, the reports of which are contained in the Appendices.

## **CHAPTER 4**

### **BOUGAINVILLE: AN HISTORICAL OVERVIEW**

#### **OBJECTIVES OF THE CHAPTER**

The objective of this chapter is to describe the natural, human and political context into which the Panguna mine was introduced. Because organisations do not function in a vacuum, rather they “exist as a system within an environment” (Kobrin, 1979:69), the unique characteristics of Bougainville prevailed upon virtually every aspect of the mine’s operation during its term on the island. An overview of Bougainville’s physical properties and a portrayal of its indigenous people is presented. The history of Bougainville, with a particular emphasis on foreign involvement in its affairs, is also documented.

#### **THE BOUGAINVILLE ISLANDS**

This section briefly examines the physical characteristics of Bougainville. Whilst many variables contributed to the revolution which closed the Panguna mine, each can be traced, directly or indirectly, to the inherent properties of the island, or the disturbance thereof.

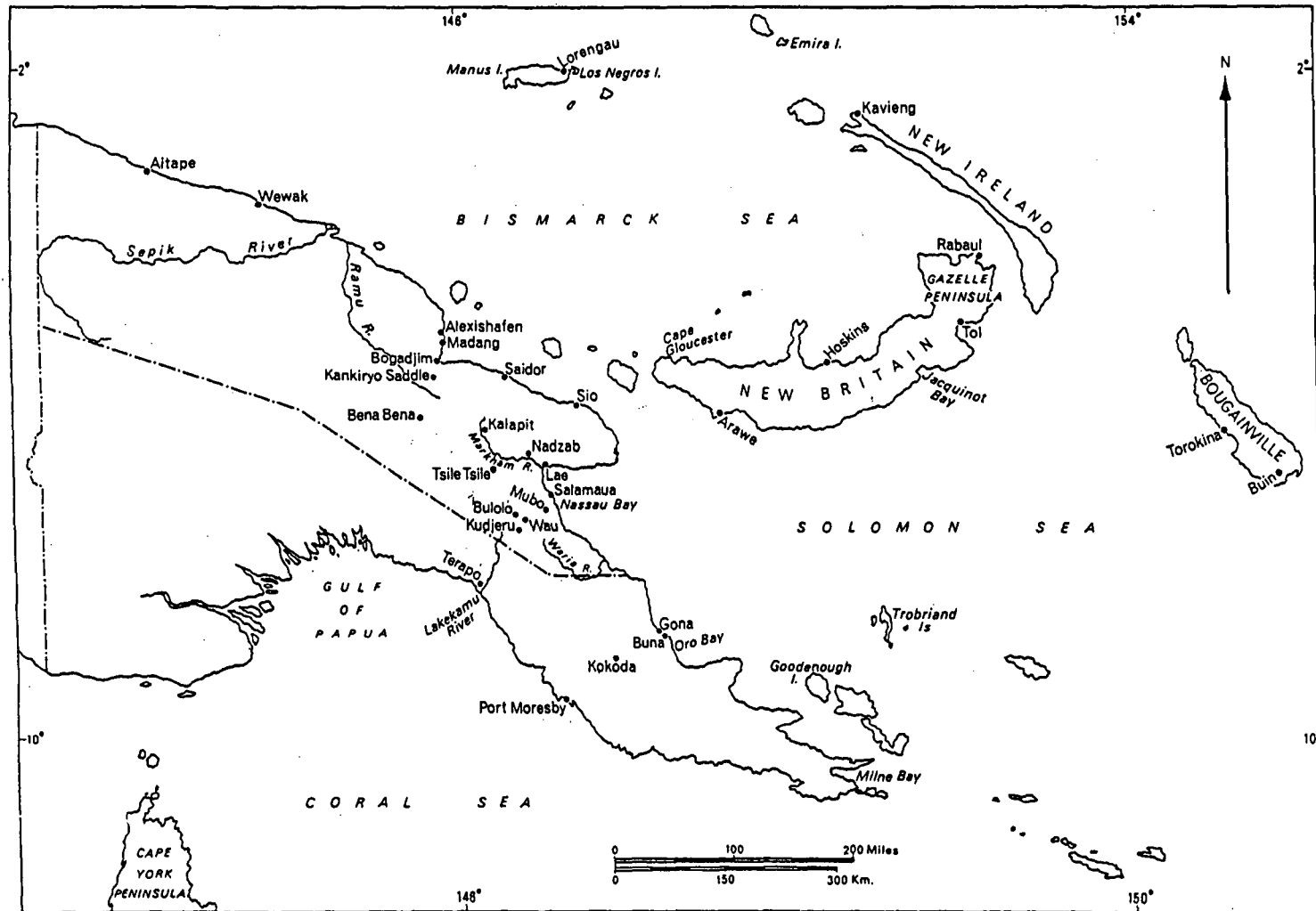
##### **Geography**

As shown in Figure 4.1, the Bougainville Islands lie in the south-west Pacific at the northern end of the Solomon Island chain, bounded by latitudes 4° and 8° south and longitudes 154° and 156° east. Although dispersed over a large expanse of sea, their total landmass is only 9,250 square kilometres (3,571 square miles) of which two islands, Bougainville and Buka, represent 9025 square kilometres (3,484 square miles); the remaining area being coral island groups and reefs (*Encyclopædia of Papua New Guinea*, 1972). Although widely classified as separate islands, Bougainville and Buka are, in fact, one body of land divided by Buka Passage, a shallow strait some 800 metres (0.5 mile) wide (see Figure 4.2).

##### **Topography**

Much of Bougainville is mountainous. The Emperor Range dominates the northern region and terminates at Mt. Balbi, a dormant volcano which, at 2,600

Figure 4.1 Geographic location of the Bougainville Islands



(Source: Oliver, D L (1973). *Bougainville: A Personal History*. Carlton: Melbourne University Press, pages 2-3).

**Figure 4.2 Detail of Bougainville and Buka**



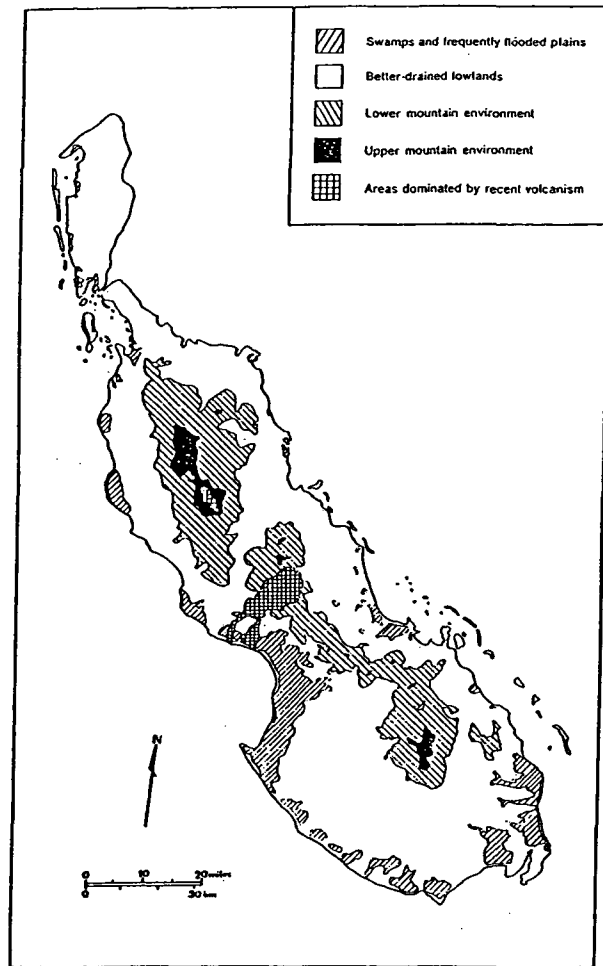
(Source: Oliver, D. L. 1973. *Bougainville: A Personal History*. Carlton: Melbourne University Press, page x).

metres (8,530 feet), is the island's highest point. To the south, the Crown Prince Range extends 80 kilometres (50 miles), reaching a 1700 metre (5,580 feet) pinnacle. Between these ranges lie several active volcanoes (*Encyclopædia of Papua New Guinea*, 1972).

Resulting from aeons of eruptions, most of the mid-altitude and lowlands consist of volcano-alluvial fans and plains. The flatlands are punctuated with frequently flooding rivers which form swamps up to 12 kilometres (7.5 miles) wide as they meet the ocean. The remaining coastline consists of high limestone cliffs, low coral platforms, swamps, and narrow beaches. (*Encyclopædia of Papua New Guinea*, 1972). The distribution of landscape types is shown in Figure 4.3.



**Figure 4.3 Major Topographic Environments**



(Source: Oliver, D. L. 1973. *Bougainville: A Personal History*. Carlton: Melbourne University Press, page 13).

### **Climate**

The wet-tropical climate produces a mean annual temperature of 26.7°C (80°F) at sea level with rainfall patterns ranging from 3353 millimetres (132 inches) per annum in the south to 2667 (105 inches) in the north. The mean duration of days without rain is three days for all months of the year (Oliver, 1973). Humidity varies between 75 to 86 per cent (*Encyclopædia of Papua New Guinea*, 1972).

### **Vegetation**

Tropical rainforests flourish to an altitude of 600 metres (1,970 feet), and cover 63 per cent of the islands. The forests are multi-layered, with a canopy of around 35 metres (115 feet) under which lower storey trees grow to about 15 metres (50 feet). The forest floor is covered with 4 to 5 metre (13–16 feet) shrubs. Terrain between 600 and 1200 metres (1,970–3,940 feet) supports

medium height trees with ferns dominating the lower layers. Growth above 1200 metres is typified by tall palms which overhang pandanus at the lower story, with grasses and ferns at ground level. Swamp vegetation ranging from 40 metre (130 feet) trees to floating mats of grass occupies about 9 per cent of the land area (*Encyclopædia of Papua New Guinea*, 1972).

### **Fauna**

Amphibians and reptiles constitute most of the native wildlife, with mammals restricted to possums, rodents and bats. The skies abound with approximately 65 species of birdlife and large, colourful butterflies. About 145 varieties of fish inhabit local waters (*Encyclopædia of Papua New Guinea*, 1972).

### **Mineral deposits**

Whilst Bougainville's total mineral resources are unknown (Oliver, 1980), massive copper-gold reserves lie in the Panguna area of the Kawerong Valley in the southern Crown Prince Range. In 1967 Conzinc-Riotinto of Australia<sup>42</sup> (CRA) estimated the lode's yield at 203 million tonnes<sup>43</sup> (200 million tons) of ore "of average grade of 0.63 per cent copper and 0.5 dwt<sup>44</sup>/ton gold" (Macnamara, 1974:37).

## **THE BOUGAINVILLEAN PEOPLE**

Ultimately, the destiny of the Panguna mine was directed by the distinctive characteristics of Bougainville's indigenous people. This section focuses on Bougainville's traditional system of beliefs, values and social organisation, many facets of which have survived to the present day.

### **The Essential Characteristics of the Bougainvilleans**

The earliest recording of the Bougainvillean temperament appears to be that of Bruny d'Entrecasteaux who, in 1792, observed the locals to be "gay, and friendly, and astute in bargaining" (Oliver, 1973:20). Of their countenance, de Bougainville had written 24 years earlier "these negroes are quite naked; they

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<sup>42</sup> Parent company of the operators of the Panguna mine. Refer to Chapter 5.

<sup>43</sup> The metric tonne is 1,000 kilograms (2,204.62 pounds).

<sup>44</sup> Pennyweight (24 grains of troy weight). Equivalent to 1.55 grams or 0.055 ounces.

have curled short hair, and very long ears, which are usually bored through" (Oliver, 1973:19).

de Bougainville's report of the locals' appearance overlooked their most distinguishing feature. Compared with the natives of the surrounding islands who have brown skin (disparagingly called 'redskins' by the Bougainvilleans), these people are "jet black" (Hannett, 1975:290). Anthropologists cannot explain this extreme pigmentation, as it is not found on New Ireland whence the Bougainvilleans originally came (Oliver, 1991). By ethnic category, Bougainvilleans are considered Melanesian and, despite their uniform blackness, physical differences are evident from one region of the island to another.

d'Entrecasteaux's observation of the Bougainvilleans' nature appears to have been quite accurate, as Oliver (1973:74) reports:

... most Bougainvillians would have regarded freedom of fear, fear of unfriendly spirits and of hostile humans, to be a major goal in life ... Another intangible evidently desired by many was prestige, the renown that derives from doing praiseworthy deeds. In the minds of these islanders several kinds of action merited praise: fine craftsmanship, skilful hunting and fishing, successful magic-making, aggressive fighting and, most important ... open-handed generosity.

The exchange of goods seems to have ranged from direct barter to commercial enterprise. Of Bougainvillean business practices, Oliver (1973:65) writes:

In some instances people from one place took their wares to a likely meeting place, and ... would proceed to barter for local products, with wary bargaining on both sides. Elsewhere, based on longer relationships, people from two places would meet at an agreed time in some neutral place to barter objects at tacitly agreed-upon exchange rates, ie without haggling. Still another stage was reached when certain kinds of objects ... were used for buying more immediate consumables. [They] were not novices in commerce when European traders appeared on their beaches.

This picture of a peace-seeking, generous and commercially shrewd people veils the savagery of continuous tribal warfare, however. Although assault by massed forces was unusual, members of one district would ambush members of another or attack them during trade meetings. Women and children were not spared and, where possible, victims were dismembered and skulls kept as trophies. Cannibalism was customary on Buka and northern Bougainville.

## **Languages**

Centuries of isolation from the inhabitants of surrounding islands and the wide dispersement of communities (detailed below) resulted in diversified languages throughout Bougainville. Oliver (1973) reports that, in 1963, nineteen distinct

languages (11 Austronesian<sup>45</sup> and 8 non-Austronesian) were identified. Some of these languages have become mixed, featuring words and phrases from neighbouring tongues. This phenomenon has exacerbated the island's fragmented community structure, thereby further increasing the heterogeneity of Bougainvillean society.

## **Social Structure**

Most of Bougainville's population lived in tiny settlements scattered throughout the island, with only a few larger villages established in coastal regions. This meant that while Bougainville had a large number of individual clans, they were very small. Tribes ranged in number from about 20 persons to seldom more than 300 (Oliver, 1991). The basic social unit for all clans was the family, yet the make-up of individual households differed. Whilst the monogamous pair and their children was the most common pattern, some accommodations catered for numerous generations of family members or a man with various wives and their offspring.

The most distinctive social tradition of the Bougainvilleans was their universal practice of matrilineal kinship whereby each person, at birth, became a member of his or her mother's clan. The regulation and function of these matriarchies differed widely from one society to the next, however; each group had its own customs concerning the role of men and women, religious ceremony, selection of spouses, hierarchy of elders, the passing of land rights, and so forth.

## **The Economy**

Following European settlement, subsistence farming was supplemented by cash cropping and the establishment of foreign-owned copra and cacao plantations. Handicraft was practised in some regions, and limited 'commercial' pig raising and fishing took place. The spasmodic establishment of timber mills generally proved unsuccessful. As roads were primitive and discontinuous, most commodities were transported by sea (WDS<sup>46</sup>, 1973).

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<sup>45</sup> Austronesian is "a vast family of languages ... which originated in South China and/or Formosa [which] proliferated and spread throughout Southeast Asia and all over the Pacific. They are found in the islands of Micronesia and Polynesia, and of Melanesia, except for most of New Guinea and pockets of earlier, non-Austronesian languages elsewhere, including those of Bougainville" (Oliver, 1991:4-5).

<sup>46</sup> W D Scott & Co Pty Ltd. This firm was commissioned by Bougainville Copper Pty Ltd to obtain an independent opinion on the future possible impact of the mine for the period 1972 – 1990.

## **Governance**

The clans which constituted each neighbourhood varied widely in their cohesiveness, ranging from loose coalitions of hamlets which only became unified in times of threat, to well structured regional groups with defined economic, administrative and judicial practices. The manner in which leaders evolved in these societies depended upon size and unity, as explained by Oliver (1991:105):

At one extreme were those tribal neighbourhoods dominated numerically, or in terms of land-holdings, by one particular matrilineage. In such cases the members of the principal matrilineage constituted an aristocracy, and their senior member a hereditary chief, to be succeeded by the eldest son of his eldest sister (not by his own son, who would of course been a member of a different matrilineage).

At the other extreme were those tribes whose leaders earned their positions of authority solely by exercising military or political skills. Usually, actual fighting prowess was less important than the ability to gain and inspire followers...

...it appears that certain leaders, either hereditary or self-made, were skilful enough to extend their sway over neighbourhoods beyond their own, but such enlarged tribal coalitions rarely endured past the demise of the individual leader who created them.

In this regard, the Bougainvillean culture was typical of other Melanesian nations which have highly dispersed power structures (McGavin, 1994).

## **The Relationship between Bougainvilleans and their Land**

As reflected in the following observation by three indigenous students, land is the focal element of Bougainvillean society:

Land is our life, land is our physical life - food and sustenance. Land is our social life; it is marriage; it is status; it is security; it is politics; in fact, it is our only world. When you take our land, you cut away the very heart of our existence (Cited in Quodling, 1991:12).

The structure of land appropriation on Bougainville is complex because each community took an individual approach to tenure. Notwithstanding, Oliver (1991) records certain principles which prevail throughout the islands and these serve as a useful benchmark in understanding the system. Tribes generally claimed a particular geographic region and, in turn, recognised the claims of others. Much of the land used for economic purposes (hunting, gardening, residential, etc.) was possessed by individuals or groups by universal consent, while uninhabited areas (considered too distant from villages or too difficult to clear) were left unclaimed. Individuals who cleared virgin land were entitled to personal occupation of that area, but singular possession rarely perpetuated as the individual 'developer' often widened his entitlement to include other people.

As a result, land could be subject to full or divided ownership. Full ownership occurred when owner(s) possessed exclusive access or use of certain parcels of land, whereas property in divided ownership rested with both its residual owners (landlords) and its provisional owners (tenants), with the rights and obligations of both parties being widely agreed upon. Oliver (1991:107–108) details the practical application of these arrangements:

...a unit of land [was] held in undivided ownership by a combination of persons interrelated by close matrilineal ties of kinship - say, the descendants, through females, of a pair of sisters four generations back. Anyone of this combination possessed the incontestable right to garden that land. If, however, the land unit contained more cultivable land than its co-owners felt they needed, it was customary for them to lend use of some of it to less favoured kinfolk or mere neighbours.

In a similar way it was customary for the full owners of land to permit non-owners temporary use of their land and its resources, provided of course the latter were perceived to be friendly.

Hence, all units of occupied land in a tribe's region were identified, by full or residual title, with the one of the society's matrilineages.

Apart from the economic value of land, particular locations had religious prominence. Every eminent matrilineal unit owned at least one sacred shrine, typically an unusual geographic feature, which is believed to be significant to its spiritual past. Different societies used these sanctuaries for a variety of purposes, including holding religious ceremonies, storing valued icons, and burying the dead. Accordingly, most Bougainvilleans had a religious connection to designated areas of their land.

The intricate and diversified rights to land usage do not imply ownership in the Western tradition of permanent or free title. It is more a communally sanctioned possession. Ogan clarifies this point: "No rights to [Bougainvillean] land are unconditionally guaranteed. No right possessed by an individual or group is ever absolute" (Cited in Quodling, 1991:12).

Polomka (1990a:2) describes two further aspects of Bougainvillean land customs which were to become central to the island's future; the proprietorship of natural assets and admission to their territory.

Melanesian land ownership includes all resources both upon and below the land. Melanesian society neither allows 'outsiders' to enter their lands without the clan leaders' permission, nor access to land without the landowners' permission. Land provides the most reliable security for the clan; so clans want to keep their land intact.

Imprecise as custodianship may appear, land was the hub of the Bougainvilleans' economy, faith, and social structure. Accordingly, any interference

with the land or its management would inevitably lead to the disruption of their traditional way of life.

## **THE HISTORY OF BOUGAINVILLE**

There can be little understanding of the events of the past 30 years without insight into the preceding 30,000. The following is a chronological account of Bougainville's fortunes from its first human habitation to its incorporation with PNG. A brief history of PNG's move to independence is also reviewed as this has played an elemental role in Bougainville's recent past.

### **Bougainville in Pre-European Times**

It is believed that humans first came to the Bougainville Islands about 28,000 years ago from the area now known as southern New Ireland. This hypothesis is founded on several factors: (i) the maximum distance between New Ireland and Buka via the islands of Feni and Nissan is 72 kilometres (45 miles), (ii) these islands are visible one to another, and (iii) the canoes used at that time were capable of such voyages (Lewis, cited in Oliver, 1991:1). The reason for the initial migration remains unclear however.

Over the ensuing centuries, descendants of the original settlers remained isolated from neighbouring societies. They proliferated and dispersed, evolving into the diverse tribes described previously. This isolation ended some 3,200 years ago as other peoples settled on the islands. The descendants of the newcomers eventually mixed with the earlier pioneers, and the passage of time was accompanied by new languages and genes, plus such innovations as pottery, tools, domesticated animals and gardening techniques. The population of Bougainville-Buka at the time of European arrival is estimated at about 45,000 (Oliver, 1991).

### **The Advent of Europeans**

Details of Europe's 'discovery' of Bougainville seem contradictory. According to the *Encyclopædia of Papua New Guinea* (1972), the Dutch navigators le Marie and Schouten are credited with the first sighting in 1616, followed by Tasman in 1643. However Oliver (1973) proposes that the first Europeans to see the islands were those aboard the British ship *Swallow* in August 1767.

First contact with the indigenes was made by Louis-Antoine de Bougainville, after whom the islands are named. Having established a French settlement in the Falklands in 1764, de Bougainville navigated the Pacific in *La Boudeuse* to New Guinea before returning to France via the Cape of Good Hope (Jimack, 1988). It was during this voyage, on 4 July 1768, that he met the Bougainvilleans as they approached his ship in canoes (Oliver, 1991).

Other vessels followed. In 1792 d'Entrecasteaux anchored off the coast of Buka and engaged in trade with the natives, as did the British ship *Sarah* in 1812. From the 1820s American, French and English ships plied Bougainville's waters and thus the locals acquired weapons, metal tools, tobacco and cloth. Some Bougainvilleans joined the vessels as crewmembers (Oliver, 1991).

## **Colonisation**

### *Blackbirding*

Foreign exploitation of the Bougainvilleans commenced with 'blackbirding' around 1870. This was a form of enforced labour whereby natives were taken from their own land and sent to work the plantations of Queensland<sup>47</sup>, Fiji, Samoa and New Britain. The cruelty of this practice is expressed by Hannett (1975:286):

Untold savagery of the kind meted out by notorious kidnappers such as Dr James Murray ... were quite common. In one incident, when some of the kidnapped 85 Bukas were trying to force themselves free from the hatches of the boat, Dr Murray's second mate burst in boasting of killing twelve niggers before breakfast. Dr Murray's reply was, 'My word, that's the proper way to pop them off'.

The human rights abuses of the period are etched into Bougainville's history. A century later, Havini reports that stories of the atrocities of blackbirding are still vividly remembered by many Bougainvilleans (1990a).

### *Britain and Germany*

Towards the end of the 1800s, Europe began to recognise the strategic and political significance of the Pacific region and in 1886 an agreement between Britain and Germany saw the northern Solomon Islands (which includes Bougainville - Buka) annexed by the Germans. A further agreement transferred the Solomons to Britain in 1899, but the Bougainville group remained with Germany as a constituent of the Bismarck Archipelago (Hannett, 1975).

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<sup>47</sup> North-eastern state of Australia.



Trading posts, plantations and missions were established, and the colonial administration in Rabaul installed an outpost at Kieta in 1905. In 1907 the 'Bismarck Archipelago Trading Company' became Bougainville's first enterprise and, as Oliver (1991:31–32) describes, it marked the start of indentured labour for the Bougainvilleans.

From 1899 to 1914 the principal commercial activity on Bougainville and Buka was growing coconuts for export. By 1914 nearly 30,000 hectares ... had been alienated by whites. The manual labour used in copra production was supplied mainly by the two islands' own indigenes.

The usual term of contract was three years and the legal minimum wage was five Marks<sup>48</sup> a month plus keep. Most employers were officially licensed to punish their labourers physically, usually by flogging, for breaches of discipline; and runaways ... were forcibly returned to work...

On the other hand, the Administration attempted to see to it that such labourers were fed, housed and doctored ... and their employers were required to repatriate them at the end of their contracts.

The Administration attempted to ensure that any individual entering into a labour contract did so voluntarily. However, the methods whereby unsophisticated indigenes were usually recruited - by inducements that never materialised, or in terms that they did not comprehend - rendered this measure meaningless.

The long-term absence of a labourer affected his home community. Most indigenous communities ... were so small and closely knit that the absence of several of their productive male members left them economically and socially upset ...

Apart from plantation managers, Bougainvillean contact with Europeans at this time remained limited to brief visits by traders, government officials, journalists, scientists, and labour recruiters.

### *Australia*

With Britain at war with Germany, Australian troops captured the Bismarck Archipelago in 1914 (World Book; 1972), heralding seven years of military occupation in the region. This arrangement had little impact on either the native or foreign inhabitants of Bougainville as Germans who took an oath of neutrality were free to continue their regular interests, including the extraction of labour from the locals.

The fate of German New Guinea (including Bougainville) at the end of WWI caused some debate. For economic and military reasons Australian control was expected, but due to (i) an Allied commitment to 'no territorial gains', (ii) growing recognition that military occupation does not create sovereignty, and (iii) the anti-colonialist sentiment at the Versailles peace conference, in May

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<sup>48</sup> At the time, the Mark equated to approximately one Australian shilling (10 US cents).

1921 the lands were proclaimed a ward of the League of Nations under mandate to Australia.

Australian concern over security and economic matters resulted in most Germans on Bougainville being repatriated and their property confiscated. Apart from this, Australia took little interest in, nor had a systematic policy towards the region (Wolfers, 1972). On Bougainville, the new civil administration did, however, institute a census, initiated exploration programs, and attempted to establish a political influence by grouping the thinly scattered settlements into larger administrative units (Mamak & Bedford, 1974).

In 1929 gold was discovered near Kupei, followed by findings at Panguna and Moroni in 1934 (*Pacific Islands Monthly*, 1974). As small-scale extraction began, "gold mining became the principal revenue-producing industry of the Territory" (Oliver, 1991:43). This new venture employed many native and European citizens, but as the lodes were worked out and further exploration failed to reveal significant mineral deposits, the mines declined and eventually closed in 1941. The economy then reverted to its dependence on coconuts.

By this time, the indigenous population was estimated at 80,000. Mission and Administration personnel accounted for a quarter of the 4,600 Europeans, the remainder being engaged in plantations, shipping and merchandising. Some 2,000 Asians, mostly Chinese, were also present on the islands (Oliver, 1991). Although Australia retained the German instigated labour indenture system and "did not make any basic changes in its legal provisions or in its operation" (Fitzpatrick, 1978:103), by the late 1930s the practice was drawing criticism in both New Guinea and Australia.

## **World War II**

As the Third Reich swept through Europe, life on the islands remained unchanged except for the departure of Australians who had enlisted, and the establishment of a guard at the Buka air-strip. In December 1941, Japan's attack on Hawaii marked the end of Bougainville's peace.

When Rabaul fell in January 1942 most of Bougainville's Australian population was repatriated. The Japanese landed on Buka in March that year and were greeted as 'liberators' by many islanders (Griffin, 1990a) due to their representation as ethnic cousins who adhered to local customs and encouraged

the revival of tribal ceremonies. The Japanese were quick to capitalise on the Bougainvilleans' resentment of the Europeans' flight; an irritation which still endures (Oliver, 1991). Japan increased its troops on Bougainville after its defeat on Guadalcanal, and became more active in turning the villagers against Europeans and Chinese.

In November 1944 five Australian infantry brigades replaced the U.S. forces which had landed on Bougainville in the previous year. The Australian offensive opened in December 1944 with 25,000 Australians opposing 40,000 Japanese who matched them militarily, but lacked airpower (Medcalf, 1986). When the Allies progressively occupied the surrounding islands, Bougainville became isolated. As hunger and disease weakened the Japanese army, the

...soldiers began to raid native gardens and even turned to cannibalism when faced with starvation. Bougainvillean reaction ... was to rise against the Japanese, causing much bloodshed. Thousands of Bougainvilleans lost their lives in direct and indirect confrontation with the Japanese (Havini, 1990a:34).

By the time Japan surrendered, the Australians, supported by many Bougainvilleans, had captured most of the enemy bases and were preparing for a final assault. The cost of liberating Bougainville was 516 Australians dead, 1572 wounded; 8,500 Japanese were killed in action, plus 9,800 perishing from disease and starvation; no figures of indigenous casualties are available (Oliver, 1991).

The integral role played by the Bougainvilleans in the WWII is recounted by Havini (1990a:34):

Bougainvilleans formed part of the famous Bougainville coastwatchers. These brave men eventually helped in the defeat of the Japanese garrison in the Solomons. It is sometimes said that the Bougainville coastwatchers saved Guadalcanal and Guadalcanal saved the Pacific.

The true effect of the war on Bougainville is difficult to judge. Apart from the death, injury, and destruction occasioned by the conflict, for Bougainvilleans the Japanese represented yet another change of foreign 'masters' – but one more cruel than any they had known.

### **The Post-War Years**

Two distinct yet inseparable histories influenced the situation on Bougainville following the war: the emergence of Papua New Guinea (PNG), and the events surrounding Bougainville's subsumption into PNG. At this point, PNG's chronicle is pursued as it establishes the wider context in which Bougainvillean

issues developed. Bougainville's particular circumstances are explored in Chapters 5 and 6.

Civil administration was re-established on 15 May 1946 as a result of the United Nations giving Australia exclusive trusteeship over the former Mandated Territory of New Guinea. The first moves towards a degree of self-government for Papua and New Guinea (the two regions being combined for administrative purposes) came in 1949 when the PNG Legislative Council was chartered. To ensure administrative control as well as resident representation, the Council comprised sixteen official members and twelve non-official members; the latter including three nominated natives and three members elected by the European population. Almost immediately, complete self-government for PNG became an issue. The European non-official members were most vocal in this regard while the "indigenous members tended to hew to the administration's line" (Oliver, 1973:136). Officially, Australia supported self-government, but believed political power should be withheld until the people were sufficiently educated to undertake such responsibility, possibly a century hence (Dorney, 1990).

A United Nations mission visiting PNG in 1962 criticised both the Australian administration and the PNG Legislative Council because, despite enlarged numbers since 1961, it had only seven indigenous members. The mission recommended a new assembly with no special electorates for European members. As a result, a 64 member House of Assembly was established in which 10 seats were officially appointed, 10 'special electorates' were reserved for non-indigenous candidates, and 44 'open electorates' were available to all citizens (Dorney, 1990).

### **Papua New Guinea Independence**

The first House of Assembly elections were held in 1964 following an intensive education campaign. The outcomes of these elections are reported by Oliver (1973:139–140):

... over 70 per cent of the Territory's eligible voters cast their votes ... a remarkable turn-out for a country often characterised as politically undeveloped. Also, six out of the forty-four victors in the open electorates were Europeans and two were mixed race, an indication that all the indigenes were at that time not yet eager to go it entirely on their own. ...the ethnic composition of the first House of Assembly was twenty-six Europeans, two of mixed race, and forty-six indigenes. For the first time in the Territory's colonial history, its indigenes were offered an opportunity to legislate for themselves, subject ... to the Australian government's ultimate veto power, and limited, in fact if not in theory, by the indigenes' experience in operating within the complex and alien procedures of the Westminster parliamentary system.

PNG's first political party, the Pangu Pati, was formed in preparation for the second House of Assembly elections in 1968. The United Party and the People's Progress Party were established shortly thereafter. Pangu Pati's Michael Somare (see Appendix H) took the seat of East Sepik in that election and became Leader of the Opposition<sup>49</sup>. Australia's Leader of the Opposition, Gough Whitlam, visited PNG in 1969 and proclaimed that self-government should be granted by 1972 and independence by 1976. He pledged Australia's support in this endeavour if the ALP won office in 1972<sup>50</sup>.

The 1972 elections saw Somare leading the now 100 member House in coalition with independents and members of the People's Progress Party. Self-government was granted on schedule on 1 December 1973, with independence promised for 1974. Various issues intervened however, not the least of which were threats of separation by both Papua and Bougainville as well as Whitlam's rescission of Australia's A\$500 million (US\$670 million), three-year aid promise. Independence became a reality on 16 September 1975, with Somare as Prime Minister.

Today, the country is governed with a 109 member House drawn from the 19 provinces plus the National Capital District (see Appendix I). Parliament is regulated by the PNG constitution which is described by Dorney (1990:215–216) as

...an impressive ethical document. It begins [by] defining national goals and directive principles. These goals and principles commit the country to the pursuit of integral human development; equality; political and economic independence; the use and replenishment of natural resources for the benefit of all; and the application of primarily Papua New Guinean forms of social, political and economic organisation to achieve development. The rights of the country's citizens to freedom of speech, movement, religion and assembly are all spelt out.

Parliamentary terms are set at five years and, unlike Australia, the Prime Minister cannot seek the early dissolution of parliament from the Governor-General<sup>51</sup>. The parliament decides who should be Prime Minister, and he or she is subject to overthrow through votes of no confidence.

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<sup>49</sup> Under the British Westminster system, the Leader of the Opposition is the person appointed as leader of that political party which does not hold government.

<sup>50</sup> The Australian Labor Party (ALP) won government on 2 December 1972 and remained in office until 11 November 1975.

<sup>51</sup> The Governor-General is the titular head of government, representing the British Crown. He/she may summon, adjourn and dissolve parliament, as well as appoint and dismiss the prime minister and other ministers.

## BOUGAINVILLE'S RELATIONS WITH PAPUA NEW GUINEA

As an elemental member of PNG during its colonial administration, Bougainville became a province of that country when PNG's independence was declared. The PNG constitution defines a federal system of government, granting its 19 provinces autonomy in all matters except defence, currency, and foreign affairs. North Solomons Province, which incorporates Bougainville, is no exception, as Islam (1990:33) explains:

Bougainville is represented on the National Government and Parliament through its elected representatives. Its provincial government is composed of the elected members of the Bougainvilleans who also enjoy the benefits of a local government council [which] consists of community leaders. Bougainville has been governed by representative governments both at the national and provincial levels ever since independence.

The notion of a united nation is more apparent than real however. PNG's nationhood came about rapidly, mainly due to "Canberra pushing for a quick end to Australia's colonial rule" (Dorney, 1990:48). But in their haste to attain this status, the architects of independence in Port Moresby and Canberra gave scant regard to the difficulties of unifying one of the "most stateless and varied of small societies on earth" (Lafitte, 1993:290). The legacy of attempting to 'decolonise' a country whose 700 tribes (Polomka, 1990a) had never been adequately integrated during colonisation is apparent in the deep divisions which fragment PNG today. Nowhere is this more conspicuous than on Bougainville. To these people who "have never felt a kinship with the Papuans and New Guineans, [and] who are different from them in colour, language and culture" (West, 1972:130), joining PNG seemed little more than the advent of another colonial administration.

The Bougainvillean desire to escape external control has been a long-standing issue. The first public evidence of this came in April 1962 when several Nasioi villagers, anxious to be free of Australia, requested a visiting UN mission to transfer the administration of the islands to the United States. Six years later a small group lodged a petition with a Bougainville MHA calling for a plebiscite to determine whether the island should separate from PNG. In 1975 Bougainville declared its independence and remained apart (at least politically) from the national government for almost a year. Finally, in 1988 the people embarked on a civil war to tear free from foreign domination. These activities are explored fully in Chapter 6.

## CHAPTER SUMMARY

Bougainville's environment has largely defined its human biography. The island's isolation, terrain and thick vegetation explains in part the uniqueness and cultural diversity of its people, its strategic and political importance, its low agricultural value, and its relatively low economic exploitation. While the climate is detrimental to the health of humans and destroys virtually all man-made materials, it supports a fragile eco-system on which the islanders depend.

Bougainvillean life has three defining elements. Firstly, the people are unique. In appearance, language, and social customs, they are different from their island neighbours. Secondly, being Bougainvillean is not a comprehensively shared sense of character or loyalty. Given the size and isolation of social units, the people do not think of themselves as Bougainvillean; to them, the collective 'we' is an individual and relatively small grouping. Thirdly, in keeping with Melanesian tradition, Bougainvilleans are at one with their land. Land is not only the sustainer of temporal life, but also central to tribal identity and mystic beliefs.

In the past two centuries, foreign interference has irreversibly changed the Bougainvillean way of life. Although many other peoples in the region were subjected to similar invasion, Bougainville is unusual in that it was unilaterally ceded to Britain, Germany, Australia (twice), Japan, and PNG within 75 years. The injustice of this experience, together with the Bougainvillean perception of being a race apart, has resulted in a general distrust of 'outsiders' and repeated attempts to be recognised as an independent nation. Perhaps the Bougainvillean attitude towards foreigners is best summed in the remarks of an Australian Government official (Cited in West, 1972:130):

These Bougainvilleans are anti-Europeans, anti-Australian especially, anti-Chinese - in fact, just about anti-everybody. They just don't want us or our Government. Least of all do they want the "redskins" of Papua and New Guinea.

Clearly, Bougainville's social and political history did not provide an ideal environment for the establishment of a new mining venture, particularly one predominantly owned by Australia and the PNG government. However the Panguna copper mine was developed and, as discussed in the following chapter, management was compelled to conduct its affairs within the particular constraints of its hosts.

## **CHAPTER 5**

### **THE OPERATION, MANAGEMENT AND CONSEQUENCES OF THE PANGUNA COPPER MINE**

#### **OBJECTIVES OF THE CHAPTER**

The primary objective of this chapter is to provide a history of the Panguna copper mine and detail the consequences of its presence on Bougainville. Commencing with the initial mineral exploration in 1963 and concluding with the mine's last full year of production in 1988, the following presents an overview of Panguna's corporate and productive characteristics, management's relationship with its hosts, and the operation's impact on its social, cultural and physical environment. Particular attention is focused on the company's efforts to balance its commercial priorities and social responsibilities with the diverse, and often conflicting, demands of the host communities and the host country.

#### **THE ESTABLISHMENT OF THE PANGUNA MINE**

This section explains the history and structure of the company which was chartered to operate the Panguna mine, and describes the prospecting and inaugural developmental phase of the project (1963 to 1970). The company's early involvement with the Bougainvillean people is investigated, and its preliminary negotiations with local landowners and the PNG authorities are examined.

##### **Bougainville Copper Limited**

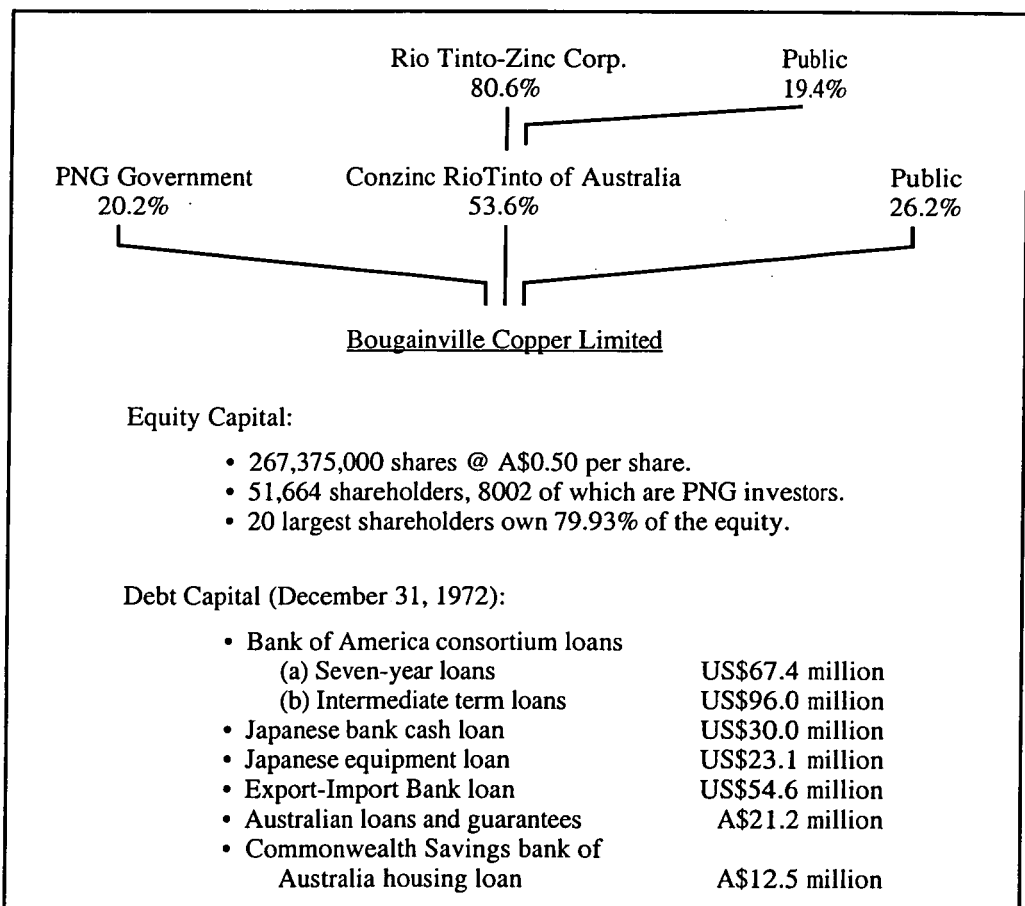
The Rio Tinto Company was established in England in 1873, taking its name from the Rio Tinto region of Spain from which copper has been extracted for some 3,000 years. In 1962, the company merged with another British mining firm, Consolidated Zinc (CZC) to form Rio Tinto-Zinc Corporation Limited (RTZ). RTZ is involved in the extraction, processing and marketing of minerals, via subsidiaries and associated companies, throughout the world.

The 1962 merger resulted in the joining of Consolidated Zinc Proprietary (CZC's Australian subsidiary) and Rio Tinto Mining Company of Australia Limited to form Conzinc-Riotinto of Australia (CRA). Following the discovery



of substantial ore deposits on Bougainville, CRA registered Bougainville Mining Ltd and a further subsidiary, Bougainville Copper Pty Ltd (BCP), with a view to developing the resources in the island's Panguna region. In accordance with PNG's *Mining (Bougainville Copper Agreement) Ordinance 1967*, the government took up a 20.2 per cent interest in BCP in 1970 and the following year saw Bougainville Mining Ltd make a public issue. A reorganisation in 1973 eliminated Bougainville Mining Ltd from the ownership structure and BCP was established as a public company, incorporated in PNG, under the name Bougainville Copper Ltd (BCL) (Vernon & Wells, 1986). Figure 5.1 shows the subsequent distribution of equity.

**Figure 5.1 Ownership and Capital Structure of Bougainville Copper Ltd**



(Source: Annual Reports, 1972 and 1973, Bougainville Mining Limited. Cited in Allan, G B, Hammond, J S and Wells, L T (1974). *Bougainville Copper Ltd*. President and Fellows of Harvard College. Harvard Business School case 9-174-104.)

### Negotiations between CRA and the Villagers

For both the Bougainvilleans and CRA, the most frustrating issue surrounding the founding of the Panguna mine was the lack of understanding each party had

of the other. This was not born of insensitivity or intransigence, rather it turned on the cultural and legal gulf between the two.

### *The Difficulties Experienced by the Company*

In its early dealings on Bougainville, CRA was ignorant of the people, their languages, and their societal arrangements<sup>52</sup>. Conscious of this, and the potential difficulties of such a situation, the company allowed its geological pioneers to come to equitable arrangements with the villagers as they saw fit, according to individual encounters. K. M. Phillips (see Appendix J), who led the first exploration party in 1964, engaged the services of a Niuginian<sup>53</sup> to assist in negotiations with the locals. Of this endeavour, Phillips (cited in Quodling, 1991:98–99) noted:

Neville Robinson was a native gold mining assistant with the ... Land Department based in Moresby but with most PNG contact with Highlands people in the late 1950s/early 1960s. Robbie ... himself generated the idea that he should act as our liaison... Although his background of dealing with highlander primitives was the wrong one for Bougainville we felt it was better than nothing at all...

Similarly, the architects of the CRA's procedural operations on Bougainville were 'navigating uncharted waters'. Quodling (1991:46) notes that "...policies had to be established in a virtual vacuum, since there was little in the way of precedent to call on throughout developing countries and virtually none within the Melanesian land ownership culture".

When the viability of the Panguna venture became apparent, the company's need to understand and communicate with the villagers intensified. Accordingly, the assistance of Australian universities was sought but, due to the prevailing political climate, "Australian academics were loathe to be seen helping mining companies in those days" (Vernon, Personal communication, 1995). CRA subsequently enlisted the aid of anthropologist Douglas Oliver (see Appendix K), who recalls:

From 1968 to 1978 I was employed by Bougainville Copper Ltd as a part-time consultant, to advise the company on how to conduct their operations so as to shield Bougainvillians as much as possible from the harms that inevitably accompany such mining. (1991:xiv)

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<sup>52</sup> This problem was multi-dimensional. Given the diverse nature of Bougainvillean communities (refer Chapter 4), the customs and language of the villagers encountered by the exploration party often differed from one another, thus knowledge gained at one settlement did necessarily apply in another locality.

<sup>53</sup> The term 'Niuginian' is Pidgin (an English-based language widely used in PNG) for New Guinean, and is commonly used in reference to PNG natives. The name is not applied to the indigenes of islands beyond the PNG mainland, irrespective of their PNG citizenship.

Thus, initially obliged to deal with the locals in an "ad hoc, play-it-by-ear manner" (Oliver, 1991:151), followed by reliance on "the studies of anthropologists in Melanesia" (Carruthers & Vernon, 1990:1), CRA embarked on the development of the Panguna mine. Although the future would bring accusations of corporate apathy towards the natives<sup>54</sup>, CRA appeared to be committed to constructive arrangements with the Bougainvilleans during the establishment phase, but was uncertain as to how these arrangements might be achieved.

### *The Difficulties Experienced by the Bougainvilleans*

When exploration commenced, the Bougainvilleans were unaware of Australia's *Mining Ordinance 1927–40* which governed prospecting and mining in the trustee territory. Under this legislation, all sub-surface mineral rights were vested in the government which meant:

- prospectors were not required to obtain the locals' permission to search or work on their land;
- mining organisations were obliged to negotiate the terms of land access or compensation with the Australian/PNG government rather than the host society<sup>55</sup>; and
- rental for land and royalties derived from mining was to be paid to the Administration for the benefit of the entire Territory. There was no provision for recompensing the actual landowners apart from an obligation to pay for disturbance and/or damage to buildings, trees and gardens.

Not only were such laws alien to Bougainvillean society, but "to be acknowledged as owner of the land's surface and not of the things under it, was difficult to comprehend and virtually impossible to accept" (Oliver, 1991:126). By excluding from negotiation and substantial compensation those whose lives would be most affected by the mining operations, the Administration spawned a divisive relationship between the villagers and the company. The people felt bewildered and aggrieved, and CRA was hampered in its efforts to ameliorate these feelings.

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<sup>54</sup> See, for example, the 'Bougainville Initiative' discussed later in this chapter.

<sup>55</sup> Insistence that land acquisition was solely a matter for the Administration was designed (ostensibly) to prevent the exploitation of local people (Carruthers & Vernon, 1990:66).

## Exploration

Hopes of resurrecting the island's mining exploits of the 1930s to a commercial scale were generally regarded "by expatriate officials and planters as a pathetic pipe-dream" (Oliver, 1973:157). However, possibilities were revived in 1960 when an Administration geologist examining land in the Kupei area discovered the presence of low-grade copper deposits. As new technology enabled the profitable mining of low-grade ore, in 1963 New Broken Hill Consolidated Ltd and CRA formed a joint venture, CRA Exploration (CRAE), to determine the feasibility of mining on Bougainville. Under the terms of PNG's *Mining Ordinance 1927-40*, CRAE gained prospecting rights to 630 square kilometres (243.25 square miles) between 1963 and 1965 (Bedford & Mamak, 1977).

Phillips' exploration party arrived at Kieta (see Figure 5.2) in April 1964. Proceeding to Kupei, they conferred with members of that village plus members from surrounding communities to explain the CRAE's plans and the provisions of the prospecting rights. Vernon (see Appendix J) claims that the meeting was fruitful, and "the people appeared to be quite satisfied with [the] discussions and gave CRA every co-operation" (cited in Bedford & Mamak, 1977:8). In August however, Oni (chief Bougainvillean spokesman at the April conference) unexpectedly told Phillips that CRA was not welcome, and asked the group to leave the area. At a subsequent meeting attended by representatives of the District Administration<sup>56</sup>, the landowners consented to the company's activities.

Exploratory drilling commenced in the November, but many locals remained opposed to the operations despite CRA's payment for timber and produce, and its policy to employ only people from the area. As the geologists' activities extended over a larger area, resentment to their presence increased. The deteriorating situation at that time is recorded by Phillips (cited in Quodling, 1991:102):

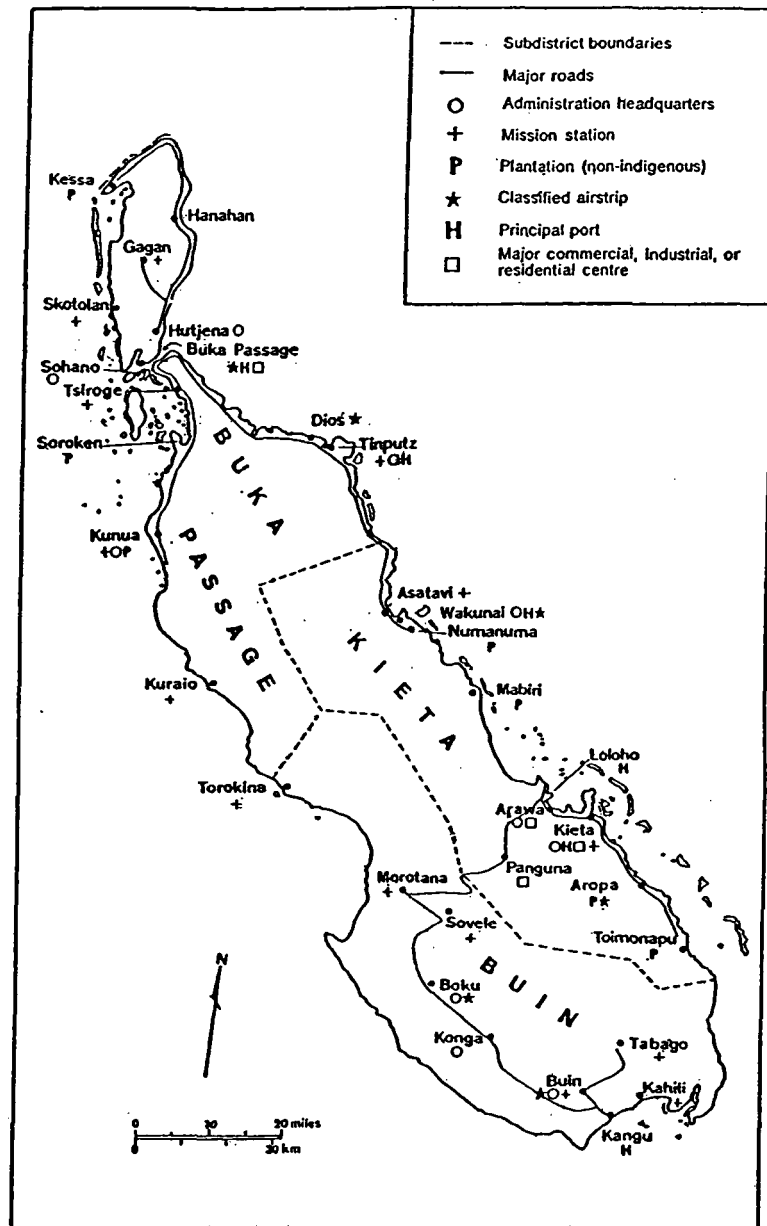
Meanwhile discussions with the people on the subject of what they were going to get out of it all increased in frequency - often these were with Oni and a few villagers... But Denehy [see Appendix K] and I were becoming more worried about what future obstacles might arise.

In June/July 1965 I was away in the U.S. for about five weeks... My replacement ... tried to push the program along too vigorously and [sent] a party into Mainoki without any forewarning. They were told to go home and despite lengthy discussions with Denehy the next day refused to change their attitude - a situation which still exists... On my return ... we were being asked to confine our activities to the Eastern side of the Kawerong.

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<sup>56</sup> The District Administration during this period was responsible to the PNG House of Assembly for overseeing government policy on Bougainville.

Figure 5.2 Major Roads and Principal Urban Areas (1972)



(Source: Oliver, D (1973). *Bougainville. A Personal History*. Carlton: Melbourne University Press, page 137).

Matters were exacerbated by the use of helicopters between Kieta and the drilling sites. In places, locals had set *i tambu* (forbidden) signs on their land which could not be seen from the air. The explorers' apparent disregard of the notices understandably increased the people's hostility.

In the light of these developments, Phillips, Denehy and Haddon King (see Appendix J) travelled to Port Moresby to advise the PNG Administration of their problems, the locals' objections as they perceived them, and to suggest

solutions. Little resulted from this submission except assurances that the Administration would do all it could to enable the team to carry out its mission.

On his return, wanting to work on land occupied by the Moroni and Pakia communities, Phillips negotiated directly with the natives and, by promising to provide a water supply to the Moroni township, gained agreement to work on their land. In other areas entry was denied as the people waited to see what benefits and damages accrued from the work at Moroni before they considered granting access to the prospectors.

Despite this enclave of consensus, other events added to the growing antipathy between the company and the Bougainvilleans. Due to a combination of the withdrawal of labour by men from Guava and Kokorei and the general unreliability of the local workforce (Bedford & Mamak, 1977), CRAE was forced to recruit employees from other areas of the island which was contrary to its undertaking to the local landowners. In early 1966, five men from the Guava region were imprisoned when they dismantled a company campsite. Although the exact charges against the men are unclear<sup>57</sup>, the action represented the first forceful action taken against the Bougainvilleans.

### **Negotiations between CRA Exploration and the Papua New Guinea Government**

By 1966, when prospecting in the Panguna Valley had revealed the potential of massive deposits of copper and gold bearing ore, there was "a very strong fear amongst the landowners that the Company and Administration were going to 'steal their land'" (Bedford & Mamak, 1977:10). The resultant opposition to exploration activities was now threatening the continuance of the program. CRAE, frustrated by the ongoing confusion and hindrance, and Territorial officials, concerned that CRAE might cease operations, began to pressure the District Administration to (i) enforce the land access provisions of the *Mining Ordinance 1928-40*, and (ii) amend the legislation to permit the payment of occupation fees to landowners within the Prospecting Authority. Oliver (1991:131) reasons that the payment of fees was motivated by "a wish to reduce local opposition to the prospecting, along with an evidently sincere desire to compensate the affected owners for use of their lands".

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<sup>57</sup> Bedford and Mamak (1977:10) claim they were convicted for forcibly ejecting geologists from their land, while Phillips (cited in Quodling, 1991:107) maintains they were indicted for damaging property.

### *The 1966 Mining Ordinance*

Originally refusing to consider that any part of minerals income should go to landholders (King, cited in Carruthers & Vernon, 1990), but realising the political necessity of paying the locals for the use of their land, the PNG government moved to revise the Ordinance in 1966 to include compensation with regard to:

- damage to surface and improvements (including economic trees and crops);
- loss of surface rights and access;
- consequential damage; and
- payment of occupation fees for private land subject to Prospecting Authorities at the rate of A\$1 (US\$1.45) per acre<sup>58</sup> and mining tenements at the rate of A\$2 (US\$2.90) per acre<sup>59</sup>.

These proposals did not allow for any payment of mining income to the locals, but when the bill was debated in June 1966 the House of Assembly was forced to consider the question of such royalties. Paul Lapun (see Appendix L) proposed that five per cent of the total royalty paid to the Administration be returned to the owners of the affected land. Lapun was supported by other Niuginian members, but the amendment was lost by 8 votes. The defeat of the proposal "only added to the confusion on Bougainville and made those hostile to CRAE's operation even more determined to reject the whole mining operation" (Bedford & Mamak, 1977:15). Lapun again brought the royalty issue before the House in November 1966 and on this occasion his amendment was successful.

Regardless of having gained compensation for occupation and damages plus royalties for the value of the minerals, many Bougainvilleans still resisted the company's intrusion onto their land. Police were required to escort surveying and prospecting parties operating outside established drilling sites. Losing patience with the villagers' objections, the Administration strengthened its resolve to preserve CRAE's presence, as is evidenced in the House of Assembly debate records (Vol. 1, No. 12, 2308) of February 1967:

...this House ... fully supports the present prospecting programmes and proposed future activities of large mining companies in the Territory... and... declares its hope that these activities will lead to the sustained production of minerals and the establishment of a stable industry (cited in Bedford & Mamak, 1977:19).

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<sup>58</sup> A\$2.47 (US\$3.58) per hectare.

<sup>59</sup> A\$4.94 (US\$7.16) per hectare.

### *The 1967 Agreement*

While the legislature debated the compensation issues associated with the proposed venture, CRA was negotiating the conditions under which it might develop the Panguna ore deposit. In August 1967 the PNG House of Assembly passed the *Mining (Bougainville Copper Agreement) Ordinance 1967*, under which the company completed its evaluations, constructed facilities and commenced production. Oliver (1991:134–135) reports the principal provisions of this Act as:

- the approval of current leases;
- an option for the Administration to take up to 20 per cent equity in the mining company (at par) once feasibility was established;
- an undertaking by the company to complete current investigations and finalise all necessary construction required for mining, processing and shipping within five years;
- an undertaking by the company to provide roads, port facilities, and off-site housing for employees;
- the company was bound to erect and temporarily fund a hospital on behalf of the Administration;
- the provision of a three year tax holiday, following which 20 per cent of net revenues from copper sales would be tax exempt;
- a 50 per cent ceiling on total imposts until the twenty sixth year of operations, thereafter increasing by one per cent each year up to 66 per cent; and
- a royalty of 1.25 per cent of the 'free on board' value of concentrate produced to be paid to the Administration.

Of this arrangement, Carruthers and Vernon (1990:64) note:

Given that CRA was taking all the risks on exploration and feasibility, this was an offer unprecedented in mining projects in under-developed countries, and to the authors' knowledge, has still not been matched voluntarily by any other company anywhere in the world.

During the negotiation with the Australian Government representatives, Frank Espie (the first Chairman of Bougainville Copper) consistently maintained that what he wanted was an agreement which, while providing a viable operation, would be seen as satisfactory by the first Prime Minister of an independent Papua New Guinea.

Advance contacts with overseas markets for copper concentrate were negotiated for the fifteen years following the commencement of production. Japan agreed to 1,025,000 tonnes (1,008,800 tons), Germany required 787,500 tonnes (775,060 tons), and Spain 180,000 tonnes (177,160 tons). Over time, substantial sales were also made to the People's Republic of China, South Korea and the Philippines (Oliver, 1991).

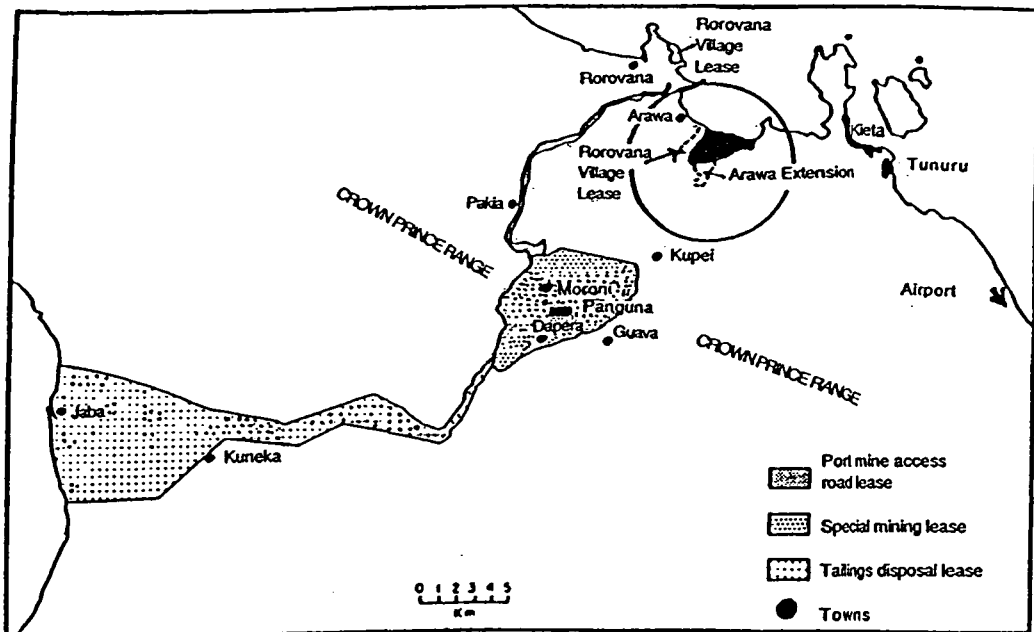


The feasibility studies were completed in 1969 and the decision to proceed was taken shortly thereafter. Total expenditure on the project thus far stood at A\$21.43 million (US\$31 million). Major construction began in July 1969 under the management of Bechtel-Western Knapp Engineering.

### The Arawa and Rorovana Land Disputes

As the minesite area was an unsuitable location for a township to accommodate company personnel, it was decided to establish a village on the east coast. Three venues were considered in 1968: the Rorovana area, the Tunuru mission, and a plantation at Arawa Bay owned by an Australian named McKillop. The former was found to be too small, and while the company favoured Tunuru, (Bedford & Mamak, 1977) the Administration (being responsible for land procurement) chose to acquire the Arawa plantation plus 150 hectares (370.6 acres) of adjacent Bougainvillean-owned land (refer to circled area in figure 5.3).

**Figure 5.3 Detail of the Arawa Land Acquisition**



(Source: Bedford, R D and Mamak, A F (1977). *Compensating for Development: The Bougainville Case*. Christchurch: Bougainville Special Publications, page 28).

This decision was primarily based on the assumption that resuming the bulk of the land from a European would arouse less opposition than if the entire requirement was taken from Bougainvilleans (Oliver, 1991). Although McKillop was not willing to leave his property, he sold it under threat of compulsory acquisition.

Due to McKillop's personal popularity and resistance to the forced sale of any Bougainvillean land, the purchase met strong opposition from McKillop's indigenous neighbours. At a meeting in Kieta in April 1969, the 1,200 attendees passed a resolution which (i) protested the lack of consultation over land matters, (ii) condemned the notion of compulsory acquisitions, and (iii) requested the Arawa decision be reversed. When presented to the House of Assembly in June, the Administration "would not review their decision on the site for the town and refused to bring BCL directly into negotiations with either McKillop or the Arawa villagers" (Bedford & Mamak, 1977:24). However, the annexure of the 150 hectares of local land was postponed.

At that time, another dispute over land acquisition had arisen. In 1964 CRA had purchased expatriate-owned land on Anewa Bay which it used as a base for its survey ship. Deciding this site would be ideal for its port and power station, the company requested the Administration acquire an adjoining 70 hectare coconut grove belonging to the Rorovana people. The Rorovanans refused to either sell or lease the property. At first, the Administration disallowed work to commence in the area until a settlement had been reached but, under pressure from the company, ordered surveyors to commence on 1 August 1969 warning the Rorovanans that the land would be leased by compulsion if they did not relent. The resultant confrontation between the locals and CRA workers drew such adverse media coverage in PNG and Australia that the Administration requested BCL to halt construction until "a better understanding could be reached with landowners" (Bedford & Mamak, 1977:25). For three months the problem was debated at meetings in Bougainville, Melbourne and Canberra. Oliver (1991:141) reports the outcomes:

The Rorovanans held out for a higher price; but the Administration did not want to allow a precedent for land acquisition elsewhere. Finally, in order to avoid very costly delays in the mining project - estimated by the company to be around [A]\$30,000 a day - the Administration gave in to the company's urgings. It negotiated an agreement with the landowners that included a leasehold occupation fee of [A]\$7000 per annum for 56 hectares...plus a large lump-sum payment to compensate the owners for the destruction of buildings already on the land. In addition, the owners were given an option of purchasing 7000 shares in the company when the first issue was made.

The Rorovana agreement set a number of precedents which were considered a substantial breakthrough for both the company and the Bougainvilleans, and it was hoped these developments would reduce land access problems:

- The Administration agreed to provide the owners' village with an access road and electricity (Oliver, 1991).

- In 1970, the landowners agreed to lease the 150 hectares which BCL required for Arawa (above) for 99 years at an annual rental of A\$18,600 (US\$27,500) subject to periodic review, and payment of A\$40,000 (US\$57,000) in lieu of existing improvements (Bedford & Mamak, 1977).
- The company was now allowed to become more active in land acquisition and compensation issues, as it had consistently sought, although still under government supervision (Carruthers & Vernon, 1990).

## **THE PANGUNA MINING COMPLEX**

The Panguna mine commenced production in 1972. Massive both in dimensions and output (Connell, 1990b), its domination of Bougainville is evident when considered in the context of its remote and undeveloped setting. Oliver (1991) notes the industrial, domiciliary and civic components of the complex:

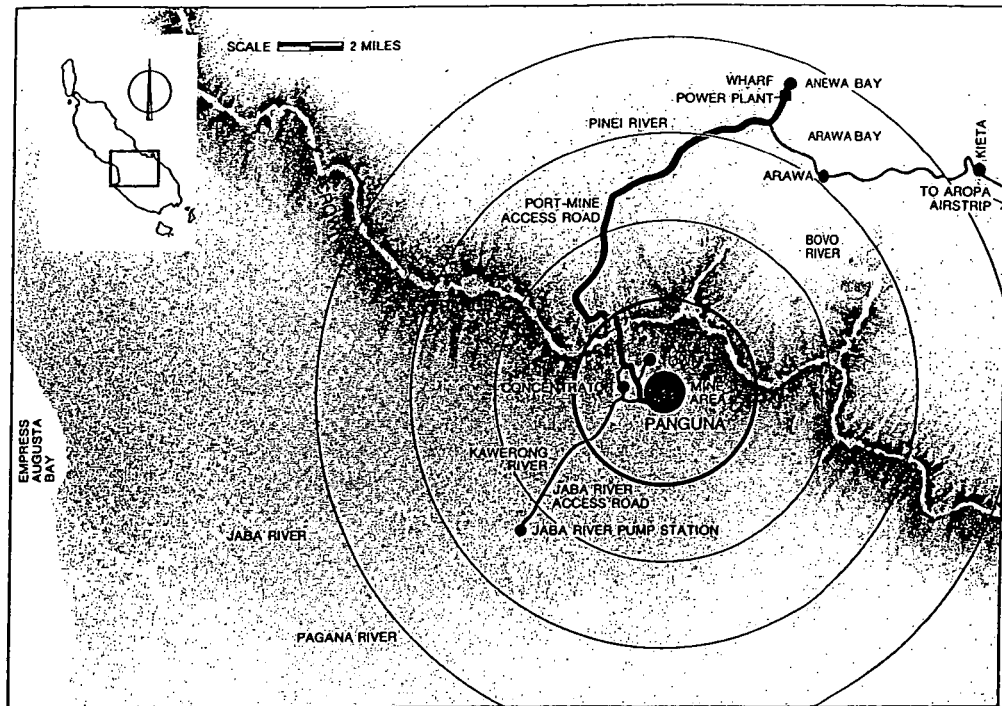
- At Panguna
  - The open-cut pit and the crushing and concentrating facilities,
  - 323 family residences and a number of two-bedroom flats,
  - ten three-storey blocks of rooms for single employees,
  - dining halls, a supermarket, sports facilities, an olympic-size swimming pool, a cinema, and an interdenominational chapel.
- At Arawa (the provincial capital, 30 kilometres (18.6 miles) from Panguna)
  - 399 houses,
  - a hospital and other community facilities,
  - commercial stores and offices.
- At Loloho (on Anewa Bay)
  - The concentrate processing and storage areas,
  - the port capable of berthing ships of up to 40,000 tonnes (39,350 tons),
  - a 135MW oil-fired power station (the output of which doubled the amount of electricity generated throughout the rest of PNG at the time).
- Infrastructure
  - Sealed roads connecting the towns and sites,
  - the pipeline carrying the concentrate from Panguna to Loloho,
  - an electricity grid,
  - disposal facilities for the over-burden and tailings, and
  - a pumping station to lift 140 million<sup>60</sup> gallons of water per day from the Jaba River to Panguna, 11 kilometres (6.8 miles) east.

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<sup>60</sup> 168 million US gallons / 636.43 million litres.

The locations of these facilities are shown in Figure 5.4

**Figure 5.4 Location of the Panguna Mining Facilities on Bougainville**



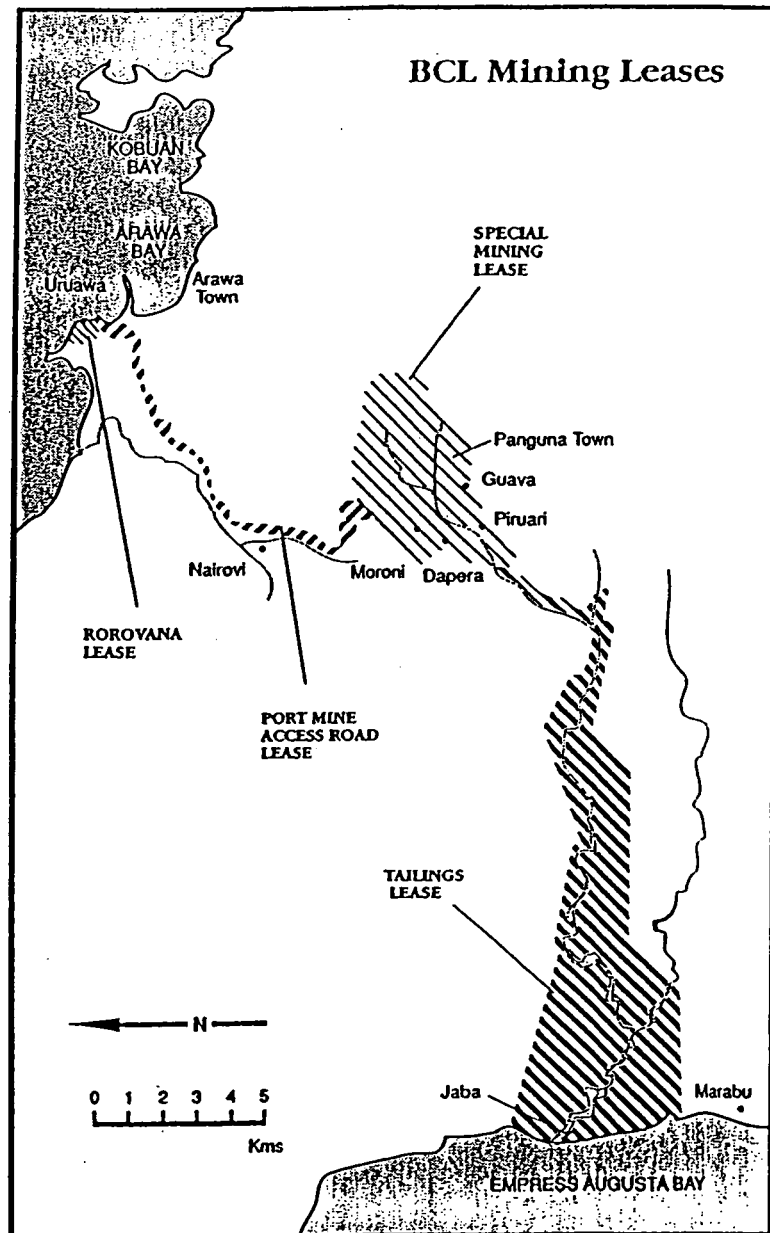
(Source: *Encyclopaedia of Papua and New Guinea*. 1972. Melbourne: Melbourne University Press, page 93).

Brown (1974) records the cost of the complex at this point as A\$400 million (US\$477.2 million). Moulik (1977) notes that, of the islands' total area of 9,250 square kilometres, the mining leases covered 150 square kilometres (60 square miles) being 1.6 per cent of the landmass, 70 per cent of which was related to tailings disposal (refer Figure 5.5). Despite this relatively small area, BCL's operations encompassed four language groups (Quodling, 1991).

In simple terms, the mine's operational process was as follows. Earth was excavated from the pit at an average rate of 155,000 tonnes (152,500 tons) per day (Gilles, 1977). The waste, amounting to 70,000 tonnes (68,894 tons) per day, was moved to the Kaverong Valley and the remaining 85,000 tonnes (83,657 tons) - containing approximately 0.5 per cent copper and 0.5 grams/ton gold - was concentrated by way of a flotation process. The tailings<sup>61</sup> from this process flowed into the Jaba River, whilst the concentrate was pumped as a slurry through a 25 kilometre (15.5 mile) pipeline to the port at Loloho. At the

<sup>61</sup> Tailings are the liquefied waste produced by the 'flotation' method of extracting minerals from ore. This is discussed in more detail in the following section.

Figure 5.5 Bougainville Copper Limited's Mining Leases



(Source: Quodling, P. 1991. *Bougainville. The Mine and the People*. Carlton: St Leonards: Centre for Independent Studies Limited, page xii.

port, the slurry was filtered and dried ready for export. The low ratio of recoverable ore to gross material excavated explains the huge size of the pit. Eventually measuring 1 kilometre by 1.5 kilometres (0.62 by 0.93 miles) at the rim and 600 metres (1,970 feet) deep, Panguna became the world's third largest open-cut pit (Dorney, 1990). A diagram of the ore extraction procedure appears in Figure 5.6.

**Figure 5.6 Schematic of BCL's Process for Producing Copper Concentrate**

**1. OPEN PIT MINING, PANGUNA**

The Panguna copper mine is an open pit. The ore, of approximately 1½% copper, will be extracted by digging a large hole with huge shovels. Giant trucks will carry away 100 tons at a time, some of which is waste and some copper-bearing ore.

**2. PRIMARY CRUSHING**

The ore to be treated goes first into a machine which prepares it for concentrating by crushing it to a smaller size. The Panguna concentrator handles 90,000 short tons of ore each day.

**3. COARSE ORE STOCKPILE**

After primary crushing the ore is taken by conveyor belt to the stockpile. From here the concentrating process begins its three stages—fine crushing, grinding and flotation.

**4. FINE CRUSHING**

Fine crushing consists of two further stages to reduce the size of the ore. Secondary crushing reduces the ore from pieces less than 8 inches to pieces of less than one half inch.

**5. SCREEN HOUSE**

The screen house checks the size of the ore. Any pieces greater than one half inch are returned to the crushing process before further screening.

**6. FINE ORE STORAGE**

To feed the concentrator with a consistent supply, fine ore will be stored in a large shed that can hold 80,000 short tons.

**7. CONCENTRATOR—GRINDING**

The second stage in concentrating is the grinding of the fine ore until it becomes fine particles—like sand. Grinding at Panguna will be done in eight ball mills which will use about 20,000 tons of iron grinding balls a year.

**8. CONCENTRATOR—FLOTATION**

Flotation separates the valuable copper and other minerals from the rock by agitating the fine ore in water containing chemicals. The concentrate produced contains about 30% copper. Tailings, which are left over after flotation, are not wanted and are disposed of.

**9. CONCENTRATE PIPELINE OVER MOUNTAINS**

The concentrate mixed with water is then pumped in a steel pipeline over the Crown Prince mountain range to the port at Anewa Bay. The pipeline is buried under the shoulder of the mine-port road.

**10. CONCENTRATE FILTERING AND DRYING**

The final process before shipment is to reduce the water content of the concentrate. This is done at the port by vacuum filtering and rotary kiln drying. The concentrate at this stage is almost dry.

**11. CONCENTRATE STORAGE**

Near the wharf is a shed to hold 60,000 short tons of concentrate. From this stockpile will be drawn the loads of concentrate to be shipped.

**12. SHIPMENT OVERSEAS**

The ship loading machine can put 1,000 tons of concentrate per hour into a ship's hold. The average shipment to the overseas buyers will be approximately 20,000 tons.



## THE MANAGEMENT OF SOCIAL AND POLITICAL ISSUES DURING THE EARLY YEARS OF THE MINE

This section explores the dealings between the mine and the Bougainvilleans as the operation increasingly affected life on the island. Particular attention is paid to the social initiatives instigated by Panguna's management and the manner in which compensation issues were addressed. The role of the PNG government in the relationship between the mine and the landowners is also examined. The period under review includes the construction phase (1970–1972) and the early productive years of the mine (1972–1975).

### **The Re-negotiation of the 1967 Mining Agreement**

Between 1972 and 1975 the mine's political and economic environment changed dramatically from the company's original predictions. PNG was self-governing with independence imminent, and Panguna's profitability had far exceeded expectations (partly due to huge increases in world copper prices, which were to collapse in 1975). In response to these developments, PNG unexpectedly moved to extinguish many of BCL's concessions and attempted to design a more equitable distribution of profits between the company and the nation. Quodling (1991:24) interprets the government's actions thus: "BCL's affluence relative to the PNG economy was a catalyst for denunciation of the 'colonial' agreement and a 'renegotiate or legislate' ultimatum from the government." Accordingly, the company's rights and obligations were redefined by the *Mining (Bougainville Copper Agreement) Amendment Act 1974*, under which:

- the tax-exempt period was terminated as from 1 January 1974, rather than one year later;
- the 20 per cent tax exemption for copper sales was removed;
- a company tax at the marginal rate of 70 per cent was imposed when taxable income exceeded a specified threshold;
- BCL was forbidden to commence new exploration (even in extant Prospecting Authorities) without government approval; and
- the agreement would be reviewed every seven years (see below).

Of these revisions, Carruthers and Vernon (1990:65) propose that although "it was widely interpreted as evidence of a new nation's determination and competence ... company–government relations after the renegotiation remained cordial and cooperative".

Clause 26a of the 1974 amendment provided that the parties "shall meet together during the seventh year after (1974) and at intervals of seven years thereafter, with a view to considering in good faith whether this agreement is continuing to operate fairly to each of them and with a view to discussing in good faith any problems arising from the practical operation of this agreement". The subsequent reviews did not eventuate however<sup>62</sup>.

## **The Social and Political Policies of CRA/BCL**

### *Local Involvement*

The company was always cognisant that the interests of all parties could be best served by dealing directly with the landowners. Not only was there an ethical need for dialogue with those whose land was being disturbed, management was ambitious to "ensure that the people within the Prospecting Authorities... benefited from any development which might take place" (Carruthers & Vernon, 1990:65). Further, consultation with the locals was a practical necessity; Administration staff lacked the skills required to act as mediators, native social arrangements and land tenure was not understood, and official records of land custody were non-existent. Hence, despite the legal prohibition, company personnel had no choice but to negotiate access to sites by asking

...the natives' who owned what, and to assume that unchallenged statements made by what appeared to be a village's most authoritative (or most vocal!) 'leader' were true (Oliver, 1991:127).

In time, this approach would lead to further problems, but it served to gain locally sanctioned admission to sites as well as establish communication between the parties.

At the formal level, the company instituted the Village Relations Program. Through this initiative, Village Relations Officers were recruited from the townships surrounding the mine to keep the locals informed about the company's activities, advise them on compensation matters, assist with the establishment of businesses, provide information on crops and livestock, and to mediate between Bougainvillean and expatriate employees. Communication with

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<sup>62</sup> A past BCL executive advised the author that, although a meeting between the company and the national government had been scheduled for 1981, it did not proceed because: "(i) BCL insisted that the Bougainville Provincial Government be represented; (ii) the PNG National Government could not reach agreement with the Provincial Government on the revenue split between the two and so; (iii) the Provincial Government refused to participate in the review. The company felt there was no future in reviewing that agreement without the Bougainvilleans and so nothing happened."



the villagers was done directly, or through the various Missions or meetings of the Local Government Councils (Carruthers & Vernon, 1990).

### *Compensation for Loss and Damage*

Although the compensation agreements of 1966 and 1969 appeared satisfactory, many other related matters followed. Despite provisions in the *Mining Ordinance 1927–40* for landowner compensation for damage or disturbance to buildings and flora, few claims were made during the exploration phase because activities were mainly confined to areas remote from villages. The 1966 amendments to the Ordinance provided for the appointment of a Mining Warden to handle such claims and hear cases which might arise (refer Appendix M). As operations became more extensive, claims began to escalate, and by early 1970 the Warden's Court had heard around 350 cases. Whilst "in the great majority the [court's] judgement was accepted by both parties" (Bedford & Mamak, 1977:31), a schedule of compensation was devised to expedite settlement (refer Appendix N). Under the revised compensation system, liaison between landowners and the company rested in the first instance with the Village Relations Office (VRO), and claims unable to be settled in this manner were heard by the Mining Warden. Whilst this approach was generally acceptable to all involved, the settlement of various claims proved difficult. Those compensation issues which were of particular concern related to cash crops, relocating communities, nuisance, occupation fees, fishing, and native forests. These are discussed below in turn.

Since the establishment of plantations decades before, coconut, cocoa and coffee had largely supported the Bougainville economy. The Administration had set a schedule of compensation for damage to these crops, and in 1968 remuneration stood at A\$2 (US\$2.80) per mature coconut palm and A\$1 (US\$1.40) per coffee plant. In 1969 excavations for the construction of a road in the Pinei valley caused flooding which extensively damaged crops in the area. With cocoa and copra prices high at the time, a Mainku village planter named Benggong lodged a claim for A\$30 (US\$42) per cocoa tree per annum to be paid during the life of the mine. At the Warden's Court hearing of the case in October 1969 BCL resisted the claim arguing that the compensation it paid in this region should be the same as that for other areas (a sum already in excess of the Administration's schedule). The company also sought lump sum settlements rather than periodical payments. Bedford and Mamak (1977:34) describe the proceedings at the hearing:

No decision ... was taken at this Court and over the next few months BCL sought advice ... from agricultural officers in the Administration. ...there was general disagreement with the principle of paying rates to local growers which were on a par with those given to an expatriate planter. An offer of \$5 per tree was considered to be quite adequate by the Administration. Department of Agriculture officials were concerned that BCL should not establish precedents with their compensation for cash crops.

Benggong's claim was considered to be an important test case by all parties. The settlement would undoubtedly set precedents for other cash crops... The presence of extensive coconut and cocoa groves in the area being considered for tailings disposal was also influencing BCL's attitude to the case: a decision favouring the plaintiff would be potentially very expensive to the Company.

The Court gave judgment in April 1970, ordering BCL to reimburse Benggong A\$35 (US\$49) per tree by monthly instalments over 42 years. BCL successfully challenged the decision, claiming the Warden had acted *ultra vires* of the *Mining Ordinance 1927–66*. Angry that the decision had been overturned, and rejecting a compromise offer of \$12 (US\$16.80) per tree, the Pinei growers lodged an appeal in the High Court of Australia. Justice Barwick<sup>63</sup> sustained the Warden's right to make the decision, but emphasised that the "award in respect of his calculation has no binding value as a precedent for the calculation of compensation in other cases. Each of them will turn on their own circumstances" (*Benggong v Bougainville Copper Pty Ltd* [1971] 124 CLR 47). Thus the original order was restored.

As Bedford and Mamak (1977:36–37) explain, the decision and associated court hearings had negative ramifications for all parties:

The Company's public image suffered a severe blow because a very large enterprise appeared to have been penny-pinching over a claim for adequate compensation. The Administration was faced with the prospect of having to accept new precedents in cash crop settlements. And the Public Solicitor found himself in a position of not being able to advise his clients, the Bougainvilleans in the Pinei valley, that BCL would pay the amount ordered by the Warden in all cocoa cases.

Driven by these concerns, the PNG Public Solicitor and BCL entered into direct negotiations with the planters, eventually settling on lump sum payments of A\$15 (US\$21) for each coconut palm and A\$13.50 (US\$19) for each cacao and coffee plant destroyed. In addition, the company agreed "to pay compensation for all cash crops within a lease area as soon as its boundaries had been determined, and whether or not the crop had been destroyed" (Oliver, 1991:143).

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<sup>63</sup> Sir Garfield Barwick, Chief Justice of the High Court of Australia (equivalent to the U.S. Supreme Court).

As anticipated, the high rates obtained by Benggong led other growers to demand similar sums, but this expectation waned as the Warden's Court subsequently made smaller awards. Discontent with lesser amounts, some landowners accepted BCL's offer to replace their plantations with larger ones outside the leases. By December 1973 most affected cropholders had accepted either monetary or relocation compensation.

Land needed for the mine's expansion was not limited to plantations. Areas required for development included domestic property, and it was therefore necessary to relocate natives residing in designated locations. In some instances entire communities had to be moved, including the villages of Moroni (which was situated on land required for stockpiling coarse ore), Dapera (where the rock waste would be dumped) and Banoni (which would be flooded by the widened Jaba River). Between 1969 and 1971, 289 people from eight villages in the Pinei and Kawerong valleys were resettled (Bedford & Mamak, 1977).

In July 1969 the Mining Warden, acting under the provisions of the *Mining Ordinance 1927-66*, determined the compensation figures and standards applicable to the relocation of the Moroni people. The terms of this award, which set the precedent for other resettlements in mining leases, are detailed by Bedford and Mamak (1977:40-42):

...villagers were entitled to compensation for damage to their houses, gardens and cash crops, severance of their land from other land (set at \$50 per household), loss of surface rights of way (\$50 per household), and all consequential damage which, in this case, was set at \$200 per head for the 'hardship which will follow the enforced change from a traditional village environment to a European way of life, and provide for the additional cost of maintaining a European-style residence in an urbanised community'. The Company was also ordered to clear and plant gardens of equivalent areas to the ones destroyed, to provide rations ... while the gardens matured, to erect houses... to provide road access to the new site, to construct a church and to install water tanks.

Finding mutually acceptable relocation sites caused further tension between management and some locals. Of particular concern was the inability of the Dapera people to find suitable land outside the mining lease but, as Quodling (1991:48) notes, the company deferred to the villagers.

Ideally, from a BCL point of view, relocation should have been to a site outside mining lease boundaries... However, the cultural ties of the people to their traditional land tracts militated against the acceptability of such a move. Accordingly, the less than ideal solution of relocation within the mining lease was adopted.

It was decided that two Dapera hamlets would initially move to a ridge above the waste site, then resettle on the rock fill when dumping discontinued three or four years hence. Although the villagers were apprehensive about the company

honouring the 'second' move, by September 1974 the new houses were ready for occupation. Just as the people were ready to take possession however, a new procedure for tailings disposal necessitated further dumping on the housing estate. This meant another 10 month delay as the houses were removed and stored while the extra infilling took place. Connell (1991) reports the total cost to BCL of the various relocation programs was K1.639 million (US\$1.25 million).

Those communities which wanted to be resettled within the perimeters of the leases came to regret their decision. The 24 hour-a-day operations required to bring the mine into production were difficult to live with. Accustomed to the tranquillity of village life, the people had to contend with intrusions such as dust, machinery, blasting, and deforestation. Before long, reparation was being sought for these impositions. Supporting the Bougainvillean claims, Kokare (cited in Bedford & Mamak, 1977:44–45) contended that

...our beautiful, quiet, peaceful island is covered with mud and dust and square miles of rock-strewn wasteland. Thousands of ... strangers are walking all over it, and the hills are echoing the ceaseless roar of heavy machinery, bulldozers, trucks, construction work, drilling, blasting, digging. We did not ask for this.

The Mining Warden's Court generally granted payments to villagers for the hardships associated with the enforced changes to their lifestyle. Samples of nuisance compensation claims are noted in Appendix O.

Under Lapun's 1966 amendment to the *Mining Ordinance 1928–40*, the flat occupation fees for Prospecting Authorities and mining tenements were to remain in place until the unimproved value of the land could be ascertained, after which 5 per cent of that figure would be payable to the landowners. In 1969 the PNG Department of Lands, Survey and Mines set the value of land in the mining leases at A\$40 (US\$56) per acre<sup>64</sup>. Whilst BCL was content with the government valuation, the landowners considered A\$1,000 (US\$1,400) per acre<sup>65</sup> more appropriate (Bedford & Mamak, 1977) given the sums involved in the Rorovana negotiations. In response, the company contracted J. D. Powdrell, an Australian valuer, to assess the unimproved values at the time the relevant leases were granted. This task was difficult because the Bougainvilleans classed land according to its customary use (arable, village, river bed, and hunting) rather than in cash values.

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<sup>64</sup> A\$98.50 (US\$138) per hectare.

<sup>65</sup> A\$2,470 (US\$3,458) per hectare.

To accommodate indigenous traditions, Powdrell produced a scale of values for five categories of land. Concerned that “the sheer magnitude [of calculating a differential rate] would have made it impossible to achieve consensus among the landowners in the negotiating period” (Quodling, 1991:48), BCL proposed that Powdrell's average of A\$105 (US\$147) per acre<sup>66</sup> for arable land and A\$45 (US\$63) per acre<sup>67</sup> for non-arable land be used to calculate occupation fees<sup>68</sup>. However, in October 1972 the Public Solicitor suggested A\$150 (US\$210) and A\$100 (US\$140) respectively would be more acceptable to the locals. The company recognised that if it adhered to Powdrell's figures a series of litigation similar to the 'cash crop' dispute was likely, but it was unwilling to adopt the \$150–\$100 suggestion. An offer of A\$132 per acre (US\$184.50)<sup>69</sup> irrespective of location and type was made through the Public Solicitor. When the landowners refused, BCL negotiated directly with the locals, striking a flat rate of A\$130 per acre (US\$182)<sup>70</sup> in June 1973. It was agreed that payment of the 5 per cent occupation fee<sup>71</sup> would start immediately and the unimproved value of land in all leases would be reassessed in 1976 (Bedford & Mamak, 1977).

The mine's impact on native fishing first came before the Warden's Court in May 1970 when a villager claimed river pollutants denied his tribe of its natural source of protein. Bedford and Mamak (1977:49–50) outline the case:

Because fishing rights, like land rights, were 'held in trust for future generations', it was proposed that annual payments to compensate for loss of fish be paid to all members of the clan affected.

Under the terms of their agreement... the Company could not refuse to pay compensation for pollution of the Jaba and its tributaries... There was, however, disagreement among BCL's lawyers over the principle of making annual payments. At the test case [BCL] argued that 'spreading payment over 42 years could result in persons yet unborn receiving compensation for a loss they never suffered... We agree to pay the plaintiff a reasonable sum from present loss suffered by 14 people.'

The Court upheld the principle of annual payments and over the ensuing twelve months BCL and the Public Solicitor worked out a complex scheme for calculating compensation for the loss of fishing in the Kawerong. Based on

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<sup>66</sup> A\$262 (US\$367) per hectare.

<sup>67</sup> A\$111 (US\$155) per hectare.

<sup>68</sup> The company was aware that a flat rate was not an ideal solution given the various levels of land productivity and the resultant uneven population density in a subsistence economy, however this appeared to be the only manageable option at the time.

<sup>69</sup> A\$326 (US\$456.50) per hectare.

<sup>70</sup> A\$321 (US\$449.50) per hectare.

<sup>71</sup> This equated to A\$6.50 (US\$9.10) per acre. A\$16.05 (US\$22.50) per hectare.

this formula, A\$25,000 (US\$32,500) per annum was offered as fish compensation in the region. This was accepted by the locals in October 1971, provided that the sum was paid for five years from 1968, and that the formula be reviewed in 1973. BCL also agreed to pay A\$3,000 (US\$3,900) a year to recompense for other losses associated with river degradation, namely washing, bathing, swimming, and aesthetic appeal.

Similar claims followed with regard to the Pinei River, two tributaries of the Jaba, and streams which formerly ran to the Kawerong valley. Whilst BCL had expected to recompense locals for river disturbance, and was prepared to do so, it had not foreseen the number or monetary values of the claims that eventuated. Concerned by endless demands from those with 'property rights', BCL, the Public Solicitor's Office, and the District Administration started to become less sensitive to landowners' compensation requests (Bedford & Mamak, 1977).

While it could be argued that remuneration for natural vegetation was not required as it was accounted for in the land's unimproved value, BCL recognised the significance of trees to village life and agreed to compensate for the destruction of the bush. The value of different species of native plants, including hunting benefits and aesthetic attraction, were estimated from A\$25.10 to A\$116.55 (US\$35 to US\$163) per acre<sup>72</sup> (Bedford & Mamak, 1977), but the company preferred annual payments of the average value for reasons outlined above. In 1971, A\$66.77 (US\$93.50) per acre<sup>73</sup> per annum was proposed, but negotiations were halted until agreement had been reached on the occupation fees. Discussions between the Public Solicitor and the company led to an offer of A\$50.18 (US\$70) per acre<sup>74</sup>, but this was rejected in August 1974 as landowners 'held out' for a better deal. BCL, hardened by the ongoing demands for river compensation, did not proffer a larger sum. As Bedford and Mamak (1977:53) explain, the climate surrounding indigenous compensation began to change from this point.

... there was growing concern both on Bougainville and in the [PNG] Government over amounts of money being paid to a small sector of the island's population... The days of out-of-court settlements because of a fear of protracted litigation causing bad publicity for the Company were over. The prevailing opinion reflected a comment made by BCL's legal adviser in May 1970: 'the aim of compensation is not to make people millionaires and turn a calamity into a bonanza... The sum should be reasonable and moderate rather than extravagant and generous'.

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<sup>72</sup> A\$62 to A\$288 (US\$87 to US\$403) per hectare.

<sup>73</sup> A\$165 (US\$231) per hectare.

<sup>74</sup> A\$124 (US\$173.50) per hectare.

### *The Environment*

By today's standards, the company's approaches to the anticipated ecological effects of the Panguna mine may seem cavalier, but as decisions over the development of the venture were taken in the 1960s, contemporary opinion must be tempered against the attitudes, understanding and technology of the time. Irrespective of this caveat however, is the fact that open-pit mining involves the creation of a crater in one position, and complementary amounts of residue in other locations. This changes the landscape forever.

As previously noted, almost half the earth excavated from the Panguna pit was overburden. Because this untreated waste possessed conventional soil characteristics (Gilles, 1977), it was stacked in the Kawerong valley where, over time, it would add about 300 hectares (741 acres) of flat land on which BCL could extend its facilities. The valley and its fertile slopes were to be lost, however.

The remaining material proceeded to the processing plant where the minerals were extracted and the excess (tailings) was ejected as a slurry. Tailings are disposed of by either release into fast flowing rivers or storage in dams where solids can settle and the water re-used. BCL knew that the latter was environmentally preferable, but opted for river dumping for reasons noted by Quodling (1991:29):

Conventional tailings dams ... were ruled out. Not only would conventional tailing [dams] eliminate further tracts of arable land, but their stability could not be assured in an environment of such high seismic activity. Pipeline transport for dumping at sea was considered but rejected on technological and financial grounds. Furthermore, the leading hydrological consultant retained to advise on stream transport of tailings material projected that some 80 per cent of the material would move to the mouth of the Jaba River by natural flow.

Thus, the tailings were discharged into the Kawerong-Jaba river system at a rate of about 85,000 tonnes (83,657 tons) per day, and whilst in the early years the company did little to mitigate the impending damage this would cause, it did not disguise the fact and was prepared to compensate the locals for same.

Apart from the disposal of tailings, CRA/BCL's ecological concerns up to the mid 1970s were limited. This was mainly due to the findings of a report by W. D. Scott and Company (WDS) commissioned by the company in 1971. Of the environmental effects of the Panguna mine, WDS declared, in part:

On the size scale and the time scale appropriate to the evaluation of physical environmental dynamics, the physical changes have been minuscule, and very temporary. To the observer, however, the environmental changes naturally appear greater.

The villages down the Kawerong and Jaba and in the tailings area have been...subject to relocation. The area affected was generally sparsely settled and agriculturally poor.

Atmospheric effects of the project's operations are confined to discharge of oxides from the thermal power station at Loloho and dust. The sealing of roads, high rainfall and mists and dews at the mine site means that dust is and will not be any problem.

Due to high rainfall and cyclone incidence, topography at the mine site cannot be yet considered finally stable. Other than this and the uncertainty of tailings geography the environmental effects of the project are bygones. No further important changes are likely to occur. (1973:3-1-3-3)

Issues such as soil contamination, the impact of destroying fauna and flora, and potential human harm were not deeply considered. Of the company's early environmental efforts, former Chairman Carruthers claimed "While perhaps we could have done some things differently, it is difficult ... to concede that another company would have performed better overall" (cited in Polomka, 1990b:55). Whilst management's view of the mine's ecological impact may have been inadequate, it was clearly more realistic than that of the PNG government. In 1971 the Minister for Works and Mines portrayed the future of the site thus: "when the mining [is] finished, 3000 acres [will] be lake, a useless swamp area of 50,000 acres [will] be converted to pasture, and 20,000 acres [will] be reclaimed from the sea, also for pasture" (cited in West, 1972:119).

### *Social Programs*

Aware that its objectives on Bougainville were inherently at odds with the islanders' way of life, management continually tried to minimise the cultural and psychological damage the mine would inevitably cause. It was reported in 1969 that "Few mining companies have ever approached the opening of a new mine with the careful humanitarianism being shown by the CRA men on Bougainville..." (Robinson, 1969c:4). In this spirit, the company adopted social policies intended to provide mutual benefits. These included matters concerning employment, employee relations, education and training, racial integration, health, indigenous business opportunities, and the establishment of a philanthropic institution. Each is discussed below.

The company's practice of hiring local labour commenced with the initial prospecting parties and continued throughout the life of the mine. Holding that people should "be offered employment according to their qualifications irrespective of their district of origin" (Carruthers & Vernon, 1990:66), jobs were open to workers from throughout PNG. Unable to forecast the numbers of



indigenes who would seek work, CRA set a native workforce target of 40 per cent Bougainvilleans and 60 per cent from other regions of PNG. Over the years, Bougainvilleans constituted the "main ethnic group in the national workforce, averaging some 30–35 per cent" (Quodling, 1991:37).

In keeping with its equitable employment policies, management would have preferred to pay all workers equal money for equal work. However, wages paid to PNG citizens were lower than those of expatriates. This ostensibly discriminatory practice is explained by chairman Frank Espie (cited in Oliver, 1991:150–151):

We cannot pay indigenous employees expatriate level wages until this country as a whole reaches something approaching similar wage levels. The company would serve its own short-term interests by paying such wages: in this way we could attract, and hold, the cream of the country's talent. It would, by doing so, have destructively distorting effects on the whole manpower and economy of a developing country. It would particularly affect the balance between people who work for wages and those who live in agriculture, as do most of the people of this country. Such an imbalance has created grave problems ... for a number of African countries.

Once the decision to proceed with the mine was taken, CRA, in concert with PNG's Department of Labour, sponsored the formation of a trade union. Believing "the existence of a strong and responsible union to represent the national workforce was necessary for long-term industrial stability" (Quodling, 1991:38–39), the Bougainville Mining Workers' Union (BMWU) was gazetted in November 1969 to act on behalf of native employees. From 1969 to 1975, the leadership and management of the BMWU remained exclusively in the hands of PNG and Bougainvillean employees.

Education in PNG was rudimentary and left largely to the churches until WWII, following which Australia began to fund the missions and establish government schools. After independence Port Moresby withdrew direct education funding in favour of student subsidies; an approach which succeeded because many overseas companies contributed to the school fees of their employees' children.

Panguna's management made an early commitment to the vocational education of its employees, despite the view of many expatriates that the company was "both unwise and over-optimistic about the ability of PNG nationals to acquire and continue with complex work skills" (Carruthers & Vernon, 1990:66). To develop administrative and trades personnel, the company built an on-site training college which employed between 80 and 100 instructors. According to Quodling (1991:37), this school was "the best equipped and staffed technical

training facility in the country". Training and development accounted for about 12 per cent of the mine's payroll, and 104 people were engaged as full time trainers (*Bougainville Update*, 1990b). Employees who displayed academic potential were supported through tertiary education in Australian and PNG universities, thereby providing Niuginians and Bougainvilleans with skills in areas such as electronics, computing, management, and medicine. The company's policy of nurturing an indigenous workforce was vindicated, as the program provided a pool of competent workers, accelerated its strategy to localise the labour force, and advanced PNG's stock in human capital.

The company's policy of employee integration was exceptionally enlightened for the times. It encouraged a workforce diverse in values, norms, customs and languages, and "the expression of racial prejudice by any employee whether ... indigenous or expatriate [was] regarded as a serious matter" (*Bougainville - The Establishment of a Copper Mine*, 1974:14).

Bougainvillean recruits were orientated to the organisation by way of a 'stepped' dining and accommodation system. At first they were assigned to the 'indigenous mess', an austere barracks where traditional and Western food was served and they were introduced to beds, electricity, cutlery, and the like. Once the fundamentals of Western customs were mastered, employees moved into the 'transit mess' where further social conventions and basic English were acquired. Of this, Robinson (1969b:9) reports "[The locals] would remain in the transit stage until management felt they were able to fit into an integrated mess without embarrassment to themselves or others". From here, personnel could use an 'integrated mess' if they wished.

BCL also catered for the social and functional acculturation of foreign workers. Expatriates and their spouses learned appropriate behaviour in both PNG and Bougainvillean society and were taught elementary Pidgin. Tradespeople and supervisors needed to be fluent in Pidgin because, whilst most of the locals could speak some English, they preferred Pidgin when discussing problems.

To supplement the services provided by the PNG Department of Health at the Arawa base hospital, BCL, through the Bougainville Copper Foundation (see below) established and maintained the Arawa Medical Clinic which catered for those who required specialised attention or preferred private health care.

Because the advent of a large organisation in an undeveloped society opens opportunities for local entrepreneurs wishing to provide goods and services to the firm, its employees and their families, BCL moved to establish a Business Advisory Service (BAS) to assist in such endeavours. Supporting this concept, the PNG administration incorporated a clause in the 1974 agreement which required the advisory service to act under the direction of a steering committee to be established by the Bougainville provincial government. As the committee was never constituted, BCL developed local businesses on its own initiative. Rural cooperatives were formed to supply garden produce, and local contractors organised services such as contract labour, security, and minor building.

Due to the locals' limited ability to provide services requiring advanced financial and management expertise, the Bougainville Development Corporation (BDC) was conceived to assist in the establishment of larger ventures. Founded by the provincial government with BCL's cooperation, BDC was a public company with provincial and community government shareholders. Among its initiatives were commuter air services, steel fabrication, catering services, furniture manufacturing, and limestone processing.

With the bulk of government revenue from the mine allocated to the development of PNG's national infrastructure, BCL made plans to contribute to the country's business, cultural, and sporting life. In 1971 the Bougainville Copper Foundation (BCF) was incorporated as a company limited by guarantee. BCF's objectives, as recorded in its Memorandum of Association, are noted by Quodling (1991:43):

- to make grants and donations to Papua New Guinea for charitable, public, scientific, educational and artistic purposes;
- to assist and promote participation by Papua New Guineans in commerce, services and industry;
- to provide medical, educational and welfare services for people in Papua New Guinea; and
- to provide and assist in the provision for people in [PNG] of training in professional, commercial, agricultural and industrial skills.

Guaranteed by BCL and other CRA/RTZ entities, the Foundation was floated with a K3 million (US\$2.52 million) donation from BCL plus a grant of 3.6 million BCL shares with which to fund its pursuits. The executive committee included representatives of the national and provincial governments, members of the local community, and BCL employees. By regulation, the majority of the committee were PNG nationals. Although the BCF was intended to benefit the entire country, the mine's management believed Bougainville should be given priority and it was "arbitrarily agreed that donations should be one-third to the

Panguna/Kieta Sub-district<sup>75</sup>, one-third to the North Solomons Province, and one-third to the rest of the country" (Carruthers & Vernon, 1990:68).

## **THE OUTCOMES OF MANAGEMENT POLICIES AND PRACTICES AT PANGUNA**

This section considers the consequences of the management approaches discussed above. Following an overview of the mine's output during its sixteen years of operation, Panguna's impact is investigated from economic, environmental and social perspectives. The results of the company's response to the various compensation issues are documented, and the 'Bougainville Initiative' – a pivotal document in the mine's history – is introduced. Apart from the production details noted below, the following concerns Panguna's principal working years (1976–1988).

### **Production**

The Panguna mine proved more productive than expected, and became the largest industrial enterprise in PNG. Against pre-operating estimates of 900 million long tons (914 million tonnes) of ore assaying 0.48 per cent copper and 0.36 dwt/ton<sup>76</sup> gold (Espie, 1974), from 1972 to 1988, 1.215 billion tonnes (1.196 billion tons) of unprocessed ore was excavated (Dorney, 1990), producing some 10 million tonnes (9.84 million tons) of copper concentrate (Quodling, 1991), 304,412 kilograms (299.6 tons) of gold, and 780,875 kilograms (768.5 tons) of silver (Oliver, 1991).

The recovery of copper concentrate peaked in the early years with about 650,000 dry tonnes (639,700 tons) produced in both 1973 and 1974, earning K158.4 million (US\$111 million) and K114.2 million (US\$80 million) respectively. Thereafter, despite fairly constant production levels, earnings fluctuated as copper prices responded to an unsteady demand. From 1976 onwards, net earnings averaged K49 million (US\$39 million) (Oliver, 1991). In time, the ore yielded decreasing volumes of copper and gold. As a result, an increased amount of earth was excavated to maintain production. This had a threefold effect: the pit grew wider and deeper, reaching a rim area of 400

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<sup>75</sup> The electorate in the North Solomons Province within which the mining leases were located.

<sup>76</sup> 0.547 grams per tonne / 0.02 ounces per ton.

hectares (988.4 acres) by 1989; the waste dump rapidly consumed the valley, and river degradation accelerated.

### **The Economic Impact**

By the end of 1988, A\$1,500 million (US\$1,080 million) had been invested in the Panguna project (Oliver, 1991). Sales had generated 45 per cent of PNG's export income and 17 per cent of government revenue (Weisman, 1990), and accounted for 11 percent of the PNG gross domestic product (Griffin, 1990b). Given the 'flow-on' effects of such an integral part of PNG's economy, the mine's true economic value to the country cannot be accurately assessed, however the following indicators are instructive.

### *Employment*

BCL became one of PNG's largest employers, directly or indirectly engaging "12,000 people in a slack labour market" (Griffin, 1990b). The direct workforce peaked at about 10,000 during the construction period, of whom over 6,000 were PNG citizens (Moulik, 1973). Employee numbers during the mine's operative years averaged 3,840 (Oliver, 1991), and in December 1988, BCL had 3560 people on its payroll (Quodling, 1991). Table 5.1 shows the ethnic and professional distribution of the workforce in 1988 and highlights the company's adherence to its early commitment to employing a large proportion of PNG nationals.

**Table 5.1 Niuginian Participation in the Panguna Mine Workforce in 1988**

CATEGORY	National	Non-national	Localisation (%)
Management and professional	180	250	42
Sub-management and sub-professional	573	6	99
Supervisory and skilled	787	350	69
Semi-skilled	1,320	4	99+
Unskilled	90	—	100
<i>Total</i>	2,950	610	80

(Source: Oliver, D L (1991). *Black Islanders. A Personal Perspective of Bougainville 1937–1991*. South Yarra: Hyland House, page 150).

### *Employee Relations*

Given the general 'strike-proneness' of the mining industry (Hyman, 1981), BCL maintained an impressive record of industrial peace. Employee unrest was "usually settled quickly and satisfactorily, and occasioned very few work stoppages" (Oliver, 1991:150). Notwithstanding, the company experienced a dispute in 1975 which was portentous of the events which were to come. In May the BMWU organised a march on the mine's administration building in support of a log of claims which had been outstanding from the previous December. The demonstration rapidly degenerated into two days of rampage which resulted in widespread damage to company and private property. The clean-up operation halted production for 6 days and 82 employees (half of whom were Bougainvillean) were dismissed for activities against the company.

Although Quodling (1991:39) notes that responsibility was variously attributed to union leadership, management and the prevailing political climate, he claims it was the latter element which was of most concern to the company:

...political overtones are of particular interest. Nationalist sentiments were running high as the country approached independence; and a readiness to react against perceived colonial institutions is understandable. Probably of greater significance were the secessionist sympathies that were widespread in Bougainville at the time.

The restructuring of the BMWU following the riots neutralised the PNG domination of the union. Leadership was transferred to Henry Moses (refer Appendix L) who subsequently resigned from his position with BCL to devote all his energies to the union, which later served as a link in his election to the Provincial Assembly.

### *Education and Training*

BCL's perseverance in developing the work competencies of PNG nationals paid dividends for both the mine and the country. More than 12,000 PNG citizens were trained in the mine's college or, under sponsorship by BCL, in technical institutions in other parts of PNG or overseas. Of these trainees, 1,070 successfully completed trade apprenticeships and a further 400 graduated from PNG and Australian universities (*Bougainville Update*, 1990b).

A high labour turnover added to the company's human development costs, however BCL regarded this as one of its major contributions to its host nation. Armed with new skills and knowledge, past employees established their own businesses, took employment with other enterprises throughout PNG, or

entered the public service. "Former BCL scholarship-holders now make up an important proportion of the cadre of PNG professionals in government, the professions and in other major industry" (Carruthers & Vernon, 1990:67). The company's education of the Bougainvilleans was not limited to academic and industrial spheres; BCL assisted their introduction to various aspects of 'modern' living such as hygiene, automobiles and supermarket shopping.

### *Business Ventures*

Encouraging the establishment of local businesses to provide goods and services to support the mine yielded varying results. During the life of the mine over 200 enterprises were established which were responsible for a significant increase in the locals' levels of income (Connell, 1991). In 1988 alone, BCL purchased over K30 million (US\$25.5 million) in goods and services from nationally owned firms (*Bougainville Update*, 1990b), of which K10 million (US\$8.5 million) went to Bougainvillean and K1 million (US\$850,000) to landholder owned businesses" (Carruthers & Vernon, 1990:68). For various reasons however, many ventures collapsed. Of the Bougainvilleans' early business attempts, Oliver (1973:195) claims:

...most of the new and alien economic groups [were] conducted with little or no appreciation of the need for careful cost-accounting. Rarely [was] labour reckoned as a cost, and little or no allowance [was] made for equipment maintenance or depreciation. There [was] little understanding of the inevitability of fluctuations in the market values of their products... And co-operative ventures have been plagued by the carelessness or misplaced generosity or deliberate malfeasance of the officials of some of them. Poor management and uncontrollable circumstances also plague[d] a large percentage of ... productive and retail enterprises...

Carruthers and Vernon (1990) see the problem as being more fundamental, citing uncompetitive performance, the aversion of many landholders to manual work, and the inability of livestock farms to maintain disease-free animals. The activities of the Business Advisory Service wound down over time, but the BDC continued despite occasional, and usually politically motivated, disputes over its management and the involvement of BCL in some of its enterprises.

### *Wealth Distribution*

It was noted earlier that the mine had provided 17 percent of PNG's government revenue. This was generated from dividends on the government's shareholding in BCL (K166 million/US\$142 million), company tax (K582 million/US\$497.5 million), group tax (K104 million/US\$89 million) and other imposts (K211 million/US\$180.5 million). In addition, the provincial government (North Solomons Province) collected K75 million (US\$64 million) in royalties and

other taxes, and K24 million (US\$20.5 million) was settled on landowners in compensation and royalties (*BCL Annual Report*, 1989).

Before the mine, Bougainville had a subsistence economy, augmented with income from plantation labour. Within a few years, the island had adopted a semi-commercial structure with enclaves of the community increasingly reliant on employment, consumption and investment, and submitting to the notions of private ownership. "Incomes in some mine-affected villages [became] quite significant and everywhere [were] vastly in excess of income levels before the mine began" (Connell, 1991:59). Increasing dependence on a cash economy was responsible for a number of the social changes which emerged.

### **The Social Impact**

The social evolution on Bougainville since the 1960s has been both rapid and extreme. In general, these changes can be attributed directly or indirectly to the presence of the mine.

#### *Indirect Changes*

New-found wealth brought many islanders the 'benefits' associated with a Western economy. Road systems provided improved mobility (Quodling, 1991); consumer goods, particularly radios, TVs, VCRs and 4WD vehicles, became requisites (Oliver, 1991); sophisticated communication services were established (WDS, 1973); and the locals became involved in activities typical of an urbanised community – education, religion, politics, medicine, sporting pursuits, and the like (Connell, 1991).

Modern living has deleterious costs, however. Bougainville was now faced with a dual economy consisting of those with money (from employment, enterprise, or compensation) and those in the traditional sector (the vast majority of islanders) who had no affiliation with money. Classes developed in the egalitarian society, and with this came the attendant frictions and jealousies. Lives became oriented by days and hours (Connell, 1991). The influx of single men to the mine area resulted in "a sharp rise in vagrancy, prowling and burglary, and crimes associated with drunkenness" (Momis & Ogan, 1971:39), and the incidence of violence escalated (Hannett, 1975). Improved roads and the proliferation of vehicles saw increased numbers of human and animal accident victims.



### *Direct Changes*

The company's social and political policies outlined previously attained mixed degrees of success. Whereas some initiatives achieved the desired goals for all concerned, others increased the hardships endured by the locals. These are discussed below.

BCL's commendable integrative employment policy proved to be only mildly effective. The racial tensions which arose were not simply an expression of the 'black-white' issues which the company's management had anticipated and tried to ameliorate, rather they were multi-dimensional. In response to the Bougainvilleans calling the Niuginians 'redskins', the Niuginians referred to the coal-black islanders as 'as bilong praipan'<sup>77</sup>. This name-calling was indicative of the antipathy between the two groups which was "conceived and nurtured over several decades" (Oliver, 1991:223) and ran deeper than was first estimated by the mine's senior management. As increasing numbers of 'outsiders' arrived on the island, local resentment increased. The friction has been ascribed to assorted causes: skin colour (Robinson, 1969a), Bougainvillean belief that the PNG people are more primitive and backward than themselves (Oliver, 1991), the lack of female companionship for PNG men living on the island (Mamak & Bedford, 1974), and the ascendancy of some Niuginians in BCL ranks (Oliver, 1991).

Reports indicate that overt displays of racism were generally confined to the mine's early and later years, with relative peace throughout the intervening period. During the construction phase, Bougainvillean-Niuginian relationships deteriorated to a point where

...more than 600 Bougainvillean BCL employees and local villagers met to petition the company to repatriate 'the trouble-makers' and restrict the occupations to Bougainvilleans. To ease tensions, the company very wisely adopted some of the group's proposals (Bedford & Mamak, 1974:12).

Oliver's (1991:139-140) account of the building of the port to mine road further illustrates the locals' regard to those they considered alien:

[The labourers] included strangers from other parts of Bougainville and, even more disquieting, thousands of 'redskins'... While on their jobs and in their huge camps ... they were only potentially menacing, but on their excursions on off-days ... they posed threats, real or imaginary, to villagers' security, especially that of nubile females. The company issued strong warnings against such excursions, and many villages posted 'keep out' signs - but with what success is not known.

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<sup>77</sup> Derogatory Pidgin phrase translated as 'The arse of the frypan'.

The true nature of inter-tribal relationships between 1972 and 1988 is difficult to judge, but by 1988 the locals were again agitating for the expulsion of PNG nationals from the mining area, as Oliver (1991:199) reports: "Bougainvillians in general expressed anxieties concerning the many unemployed and semi-employed redskins ... and envy concerning the highly paid non-Bougainvillian Niuginians in company employ".

In contrast, Bougainvillean–Caucasian relationships at the individual level were generally harmonious. Robinson's (1969b:9) observation provides insight into the apparent cultural and social comfort between the two groups: "The area manager eats in the same mess as the local native foreman [sic]; Australian executives drink in the same wet canteen<sup>78</sup> as white bulldozer operators and black clerks". As opposition to the mine became more organised and more vocal however, the affiliation between the islanders and the expatriates became strained. In time, the indigenes' attitude towards Caucasians eventually approached that previously reserved to redskins, as evidenced in the following extract from the 1987 'Bougainville Initiative' (refer Appendix P):

While the Melanesian way is struggling with the cash society you have brought, BCL has shown so little understanding or appreciation of the Melanesian culture. So many of your employees are racist, openly contemptuous of us... You have lived alongside us, but not among us... Your employees insult our national dignity... (cited in Quodling, 1991:92).

Although the actual effectiveness of BCL's positive approach to employee integration is elusive, it seems logical to ascribe some measure of the relative racial tolerance to the management efforts discussed earlier. Notwithstanding, by 1988 it was clear that the long-held Bougainvillean concept of being a race apart was evolving into open contempt for all other ethnic groups.

As well as instigating the Arawa Medical Clinic, the BCF was instrumental in establishing many successful ventures including poultry and pig farms, a retail-wholesale trading complex, and diverse agricultural developments (Oliver, 1991). Irrespective of these achievements however, many Bougainvilleans were of the view that the Foundation was a 'rake-off' for the company (Quodling, 1991). These accusations ignored the facts that as a registered charity the BCF was bound to distribute 80 per cent of its income to appropriate projects, and its Articles of Association barred the transfer of any income or property to BCL.

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<sup>78</sup> The wet canteen was a bar, operated under the auspices of the company, which was open to mine personnel in their leisure time.

In an attempt to reverse this perception, the make-up of the Executive was amended to include a majority of locals, and donations to the North Solomons Province were increased at the expense of other areas of PNG (Carruthers & Vernon, 1990). These initiatives achieved little, and the BCF became the focus of antagonism and political point-scoring. The 'Bougainville Initiative' (detailed in a later section) denounced the Foundation as a "public relations stunt... which doles out small sums to local sports clubs" and portrayed it as a reflection of "BCL's power of patronage" (cited in Quodling, 1991:91-92).

Earlier accusations that Bougainville's health facilities were insufficient and Eurocentric (see, for example, Momis & Ogan, 1971) were not allayed by the establishment of the Arawa Medical Clinic. This institution was criticised as being elitist because it charged fees to remain viable and offered a higher standard of care than the Arawa base hospital (Quodling, 1991).

As the BCF was established with altruistic motives, the negative response by the local people was disappointing to BCL's managers. Reflecting on this, Carruthers and Vernon (1990:68) note that: "Clearly, in trying to put something in place to be of help in both the present and the future, in the form of the Foundation, we got it wrong".

The increase of government primary schools in the 1960s and 1970s meant that, by the early 1980s, Western-style learning was becoming an accepted aspect of Bougainvillean life. As a consequence, secondary and tertiary enrolments increased steadily. By sponsoring the education of indigenous employees, as well as subsidising the school fees of expatriate workers' children, BCL indirectly improved the educational opportunities available to all PNG citizens both in quantitative and qualitative terms.

Bougainville's educational progress had its detractors, however. Momis and Ogan (1971:38) argue that the social changes wrought by the mine had a detrimental effect on local attitudes towards education. They propose that

Young boys, in particular, find the bustle of activities in the urban sector more attractive than the schoolroom. They may see uneducated older boys employed as unskilled labourers and draw the conclusion that education is unnecessary for an exciting life. Older people are more likely to specifically reject schooling as a tool of European exploitation. ...some village leaders have forbidden school attendance as a direct response to BCPL's presence.

Further, international schools, which charged high fees, were accused of elitism which added to socioeconomic division on Bougainville (Dorney, 1990).

The resettlement of people living on land required by the mine spawned unexpected difficulties. In accordance with the conditions of the *Mining Ordinance 1927–66*, BCL supplied fibrolite<sup>79</sup> dwellings with iron roofs of equivalent size to those destroyed, plus associated services and out-buildings. By the mid-1980s the problems associated with European-style housing estates in a harsh tropical climate were becoming apparent. Describing the housing situation on Bougainville, Oliver (1991:138) notes that "all buildings require constant and expensive maintenance and repair; iron roofs develop expensive leaks; and water tanks clog with sediment." Claiming to lack the material or skills to execute repairs, the residents looked to BCL for ongoing assistance. The company refused on the grounds that the upkeep of a home is the responsibility of the householder, and that maintenance by BCL would contribute to a "dependency syndrome" and "handout mentality" (Connell, 1991:66). Similarly, tending the infrastructure of the new townships caused friction as neither side would accept the responsibility of sustaining the water supply and sanitation systems. The adequacy of the houses was also criticised. Many resettled villagers considered their accommodation to be inferior to that supplied for workers in Arawa and Panguna, and requests for improved dwellings were presented to BCL.

An unforeseen problem arose because many townspeople believed the company was under obligation to provide accommodation for all members of the community, and thus BCL was expected to supply homes for villagers when they married. Management rejected these demands, claiming that it was their duty to:

...provide for those people who were actually relocated, and not their children ... or those who married into these villages. No houses have therefore been built for newly-married couples, some of whom remain in the house of one of the partners' parents, a situation that is in conflict with Nasioi tradition (Connell, 1991:66).

Finally, those people who chose to be resettled in areas close to the mine faced the trauma of living with the ceaseless noises associated with the operation (Oliver, 1991).

The villagers' vision of life in a new town with modern residences turned to disillusion and anger. Oliver's (1991:139) analysis of the resettlement program provides some enlightenment of the bind in which the company and the Bougainvilleans found themselves:

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<sup>79</sup> A cement-based sheet used to clad the exterior walls of buildings.

[BCL] sometimes challenged claims because of their potential for endless ramifications, but most company officials known to the author acknowledged and expressed regret for these and other harmful consequences of their operations. This did nothing to reduce the victims' immediate hurts and long-term dissatisfactions.

Oliver's observations were confirmed by a past BCL executive. Reflecting on this issue, the informant noted "Relocation was always a major concern for the company both in terms of location and materials of construction. Unfortunately, despite our best efforts, the Bougainvilleans refused to accept any alternative [location]" (Personal communication, 1998).

Initially the company sponsored Village Relations Program (VRP) served as a successful conduit between the mine and the local population, but during the 1980s its ability to deal with community concerns declined as local support for the initiative waned. The demise of the VRP was attributed to various factors. Firstly, mine site residents felt their communication with the mine's management was degenerating due to the ineffectiveness of the VRO which they believed had become bureaucratic and insensitive to village issues (Connell, 1991).

Secondly, the company's assertion of genuine interest in the villagers was questioned as it increasingly failed to address their concerns in an appropriate or timely manner. Griffin (1990b:75) supports this claim: "Some BCL officials have acknowledged that during the 1980s neither the compensation nor their concern had been adequate. A few senior personnel seemed quite out of touch".

Thirdly, many locals thought Bougainvilleans employed in the VRO were favouring their own communities. In June 1987 the *Times of PNG* reported that "the 'Panguna landowners' [are] demanding the replacement of the non-landowning Bougainvilleans in BCL's Village Relations Office with expatriates, 'so that there is no bias'" (cited in Filer, 1990:7-8). This argument is sustained by Carruthers and Vernon (1990:65-66) who attribute the collapse of the program to divisions amongst the Bougainvilleans.

The Village Relations Program, which was started with the best of intentions, failed because:

- a) The Village Relations Officers, even when Bougainvillean, were seen as "spies" and asked to withdraw.
- b) Many village people employed by Bougainville Copper were successful, moved into company accommodation and not infrequently married outside traditional Bougainville societies. Such people were seen by those left "back in the village" to have forgotten their roots and village obligations.
- c) Others who were successful in business enterprises went their own way, and were also looked on with envy and resentment.

Fourthly, Filer (1990:25) suggests that community liaison efforts in the mining industry usually fail because the rigid administrative demands of companies cannot be reconciled to the fluid social arrangements of indigenes. He contends:

It is easy enough to criticise BCL's Village Relations Office for its failure to maintain local support for the mining project, but this only illustrates a more general problem with community liaison programmes in the mining industry... The problem is that these programmes are part of a bureaucratic process of planning and consultation which precedes the signing of mining agreements. In this original process, company and government staff deal with individuals who appear to be the leaders of their communities... But the story of the Panguna project suggests that the authority of these leaders within their own communities may well be undermined by the very fact of their having been party to some previous agreement, and even further undermined by the support which they seem to receive from community liaison officers. Since the community liaison function tends to be localised in the operational stage of a mining project, this means that a group of Papua New Guinean staff are placed in [an] invidious position ... because they cannot settle disputes between generations and factions within the landowning community, and are obliged by previous agreements to recognise the overall leadership of what has since become a minority faction.

Faced with little indigenous support, BCL management had no choice but to virtually abandon the VRP and thus a vital link in the consultative process was lost.

Under the terms of the 1980 compensation agreement, a trust fund was established to provide ongoing security to landowners following the destruction of parts of their habitat. The fund, designed to continue after mining had ceased, was founded to "cover all miscellaneous claims and discourage any new types of claim in the future" (Connell, 1991:62). Known as the Road Mine Tailings Lease Trust Fund (RMTLF), the new entity was chartered to act as a 'business arm' for the landowners, investing in long-term, income producing assets and to provide them with services such as education facilities, health care, transportation, water supplies, and the like (Connell, 1991). The RMTLF was funded initially by a grant from BCL, and thereafter by channelling a portion of the compensation payments into the trust, rather than giving it all to the landowners as had been the case up to this point.

BCL intended to assist the landowners in setting up and managing the trust, but the company was asked, and subsequently agreed, not to become involved in RMTLF operations (Okole, 1990). Hence the fund was administered by 75 landowning representatives, directed by an 8 member executive committee. For a time the RMTLF conducted its business to the satisfaction of most of its members (Oliver, 1991), investing in plantations, acquiring shares in BDC and other companies, and providing services to the more needy areas of the mining

leases. The success of the fund was not to endure however, as its effectiveness was weakened by internal division and political manoeuvring (detailed in the section headed 'Compensation for Loss and Damage').

### **The Environmental Impact**

That Bougainville's natural environment has been damaged by the mine is not contested by any of the parties involved. The question is the extent and permanency of that damage. Because the company, the Bougainvilleans, and the PNG government hold conflicting views on this matter, a definitive measure of the environmental impact of the mine is difficult to ascertain.

#### *The ecological issues*

The disposal of tailings into the river devastated the Kawerong-Jaba system. Contrary to the hydrological consultant's estimates noted earlier, only about 60 per cent of the solids reached the sea; the remainder being deposited in the river basins. By mid 1971 the waterways were "silted, aggraded, and widened" (Oliver, 1991:137). Seventeen years later sediment had raised the river beds by up to 20 metres (65.6 feet) and widened them proportionately, thereby creating more new swamplands in some regions and infilling others. The residue which reached the ocean caused the delta to expand from 65 to 900 hectares (161 to 2,224 acres) and spoiled the water far out to sea, "with some known or suspected lethal effects on marine life ... up and down the coast" (Oliver, 1991:137).

The river dumping resulted in pollution from zinc, copper, cadmium, mercury, lead and molybdenum deposits. Brown (1974:22) explains the problems caused by the presence of these heavy metals in the Kawerong and Jaba:

Although, in general, the concentrations of these metals are relatively low, several points should be mentioned. Discharge of metallic wastes from mine areas and metal-processing plants is a matter for serious concern because of their possible toxic properties and other adverse effects. Because of its toxicity, mercury is an undesirable impurity in any concentration. Molybdenum is a rather rare element and is accumulated by vegetation; forage crops raised on land irrigated by water that contains small amounts of the element may become toxic to grazing animals... High concentrations of copper may be toxic. During the exploration of the Panguna area concentrations of 3 ppm were found. The concentrations of cadmium has a high toxic potential... Lead is also a serious, cumulative body poison.

The social consequences of severe damage to the rivers is noted in a 1974 letter from a Bougainvillean liaison officer to the company's VRO. It states, in part:

I have been asked to explain to Bougainville Copper that the harvesting of the smaller streams was peculiarly the job of the women and that apart from the loss of variety in the local diet, loss of the streams has affected the social life of the women and children in that small co-operative fishing parties are no longer possible. As well as bringing about social changes at village level, the mine has affected the religious practices of the people as a few examples will show. Prior to the coming of Bougainville Copper it was the custom to take a newborn child to a particular pool just downstream from the Concentrator for a ritual wash; an especially important event if the child was the first born... Another pool not far from the confluence of the Kawerong and Barapinang creeks was used when a man wished to recover lost pigs or increase his fertility. (These pools had their associated 'masalai' or spirits)... (cited in Bedford & Mamak, 1977:51)

The legacy of river dumping has been profound. Wildlife and fish have departed, the locals can no longer use the waters for fishing, hunting, and swimming, and desolation has replaced beauty. Reflecting on this, Lafitte (1990:12) noted: "pouring tens of millions of tons of grey copper-ore sludge into the Jaba River [has] destroyed both the river and the livelihoods of the Nasioi, Nagovisi and Banoni peoples."

By the early 1980s, improvements in pipe conveyance technology meant that it was now possible to pump the tailings from the mine directly into Empress Augusta Bay, and in 1986 BCL took the decision to construct a 31 kilometre (19.25 miles) pipeline for that purpose. Quodling (1991:30) records this project as a benefit to both the mine and the locals: "Not only did it remove the management of tailings as a potential constraint on an extended utilisation of the Panguna resource; it would also facilitate rehabilitation of existing tailings deposits on a planned basis during mine life." Due to the mine's closure, the pipeline was not completed.

Like the rivers, the waste stored in the Kawerong Valley contains heavy metal deposits. The volume of contaminants released by leaching in this area has not been assessed but, according to Quodling (1991:30), it has "not yet reached an environmentally dangerous level, but continued monitoring is required".

Prior to the commencement of operations, some 220 hectares (544 acres) of rainforest had to be cleared. This was achieved by "poisoning the large trees and spraying the undergrowth with herbicide. The trees were subsequently felled and burned" (Brown, 1974:20). The Bougainvilleans claim that the removal of forests has disturbed the island's ecological balance. Symptoms cited include the retardation of crop growth, the poisoning of fruit trees, the disappearance of wild pigs, possums and flying foxes, and the advent of fish diseases (Dorney, 1990). Although the destruction of natural habitats and chemical pollution is the



common explanation of these phenomena, this is not conclusive. Connell (1991) proposes that the use of guns may be responsible for the loss of the flying foxes, and overcropping and lack of replanting might explain the declining performance of the crops. Dorney (1990) suggests the flying fox was the victim of an epidemic introduced from East New Britain.

Deforestation may have disturbed climatic conditions. According to an anonymous RTZ official, a change in the rainfall pattern was an early indicator of the mine's effect on the island's ecology: "Before, it used to rain regularly at one each afternoon. Now we can go for a week without rain and then it will rain at night. Or we'll get two days' rain on end" (cited in West, 1972:118)<sup>80</sup>. The air around the complex became polluted with emissions from the oil-fired power station and the countless internal combustion engines required to energise the operation. Dust settled throughout the townships and houses, and contaminated the drinking water (Connell, 1990b).

The mine's presence was accompanied by an increase in the number and variety of diseases on the island, including respiratory ailments, diarrhoeal complaints, and skin eruptions (Connell, 1991). But, as Dorney (1990:122) reports, the most disturbing claim from the Bougainvilleans concerns genetic disorders:

Our children are born with so many defects: deformed hands, legs, nose and whole body. We don't remember this happening before. So many people become old so quickly and so many die now. Before, the girls would have developed breasts before they began to menstruate, today the girls are very young when they menstruate.

It is difficult to ascertain whether the changes in the population's health patterns are, in fact, directly attributable to the mine. Connell (1991) argues that several other factors must be accounted for, including the increased incidence in some diseases elsewhere in Bougainville and PNG, the increased size and mobility of the population, and an escalation of smoking.

### *The Applied Geology Associates Inquiry*

In response to the environmental concerns associated with the mine, the PNG government commissioned an independent inquiry into the matter. In 1988 New Zealand consultants Applied Geology Associates Limited (AGA) were retained with a brief to:

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<sup>80</sup> Apart from West's uncited reference to changes in rainfall patterns, the author was not able to locate any statistical evidence of this phenomenon.

- determine the impact that mining operations at Panguna have had on the social and environmental aspects of the area; and
- determine the likely future impacts of continued mining operations at Panguna on the environment and the people in the area, taking into account the (nearly completed) tailings pipeline.

Of AGA's research, Oliver (1991:207) reports:

The team's members travelled widely and conducted public hearings in many villages. The topics investigated ranged from soil and water analysis and terrestrial and marine biology, to health, economics and the social conditions of the mine-affected populace. Special attention was devoted to grievances voiced by villagers..., to those listed by village leaders in their previous communications to BCL, and to the positions of the provincial and national governments...

The consultants concluded that

although environmental damage from mining operations was substantial, there was no direct evidence of significant levels of chemical pollution and thus it was unlikely that Bougainville Copper Limited's operations were responsible for the loss of wildlife, declining agricultural production or a range of human illnesses (*Bougainville Update*, 1990a:3).

## **Demographic Changes**

Bougainville experienced rapid population growth in the years following WWII. From the estimated 45,000 when the islands were 'discovered', numbers had risen to 72,000 in 1966 (WDS, 1973) and reached 108,726 by 1980 (Oliver, 1991). This increase can be attributed to better health care, decreasing infant mortality, the control of diseases, and the relaxation of customs concerning birth spacing (Oliver, 1980). The population explosion was accompanied by rapid urbanisation occasioned by the mine (Mamak, 1978). The operation spawned two new towns (Arawa and Panguna), and substantial growth in Kieta. Prior to the mine's closure, the annual growth rate in these areas was around 3.2 per cent (Griffin, 1990b).

As a result, in twenty years, Bougainville came from having one of the lowest rates of urbanisation in PNG to having one of the highest in the world (Connell, 1991). This had considerable economic and social implications. The demand for, and ecological pressure on, arable and/or inhabitable land, already diminishing because of the mine, rose steeply. The male dominated migration to the towns led to increased prostitution, assault, rape, and alcohol abuse (Connell, 1990b). The problems of unemployment and underemployment, hitherto unknown in the subsistence economy, arose as applicants for BCL jobs outnumbered vacancies two to one (Oliver, 1991).

## Compensation for Loss and Damage

The tensions surrounding compensation did not abate over time. Whilst compensation issues encompassed many aspects of the economic, social and environmental considerations presented above, its importance to the relationship between the mine and the Bougainvilleans was such that it warrants detailed analysis. The problems may be categorised in terms of administration, adequacy and distribution.

### *Administration*

In effect, the *ad hoc* management of compensation meant that the company had to address each claim on its individual merits. Not only was the quantum of settlement at issue, the mine's executives needed to assess the political implications of every decision. The government interference, legal actions and protracted negotiations described earlier frustrated both management and the Bougainvilleans. To a community which felt threatened by the venture from its inception, this ostensibly haphazard, slow and confrontational approach to compensation was a contradiction of the company's claims of sensitive and humane management. As Bedford and Mamak (1977:54) reason, "it is hardly surprising, under the circumstances, that confidence in administrative and company personnel responsible for liaison with landowners dissipated quickly."

The success and general acceptance enjoyed by the RMTLF during its early years began to decline as questions concerning the honesty and efficacy of its administration were raised. Although the Trust was precluded from distributing money to individuals (Connell, 1991), loans were advanced to landowners for the establishment of new businesses, the development of the infrastructure, and the purchase of building materials. With arrears on these loans exceeding K300,000 (US\$252,000) within three years (Oliver, 1991), Severinus Ampaoi, a Dapera businessman, was appointed as chairman to 'tighten' the operation. Ampaoi implemented strict financial management and diverted RMTLF assets and funds away from individual lending towards purchasing shares in larger ventures such as copra plantations and the BDC which would increase the capital of the Trust.

The reorganisation transformed RMTLF into a relatively major operation with a growing income, but the locals became resentful that they now received little direct cash benefit from the fund (Connell, 1991). With compensation money being channelled into RMTLF and few tangible outcomes being evident, many

villagers grew suspicious, especially the younger ones who "accused the 'old guard' of using the funds for their own benefit and being complacent about the needs of the less fortunate" (Griffin, 1990b:75). Accusations of restricted membership, failure to produce financial reports, and the recruitment of a Filipino as general manager of the fund also added to the landowners' grievances (Okole, 1990).

### *Adequacy*

From 1969 to 1989 CRA/BCL paid out K21 million (US\$18 million) (Griffin, 1990b) to some 2,000 people (Oliver, 1991) in lump-sum and annual compensation payments, exclusive of ancillary costs such as village relocation and the landowners' 5 per cent share of the 1.25 per cent royalties. This sum equated to an average per capita income for Bougainvilleans of about K500 (US\$430) a year (Connell, 1990b).

Initially, the amounts of compensation were considered adequate, but this acceptance slowly turned to discontent. The reasons for the Bougainvilleans' change of heart is discussed by Connell (1991:63):

Firstly ... the total amount of compensation ... was very small, relative to the wealth produced by the mine and the revenue gained by the national and provincial governments... Secondly, it was believed that the actual historic rate of compensation payments was derisory and that one-off compensation payments for cash crops were totally inadequate, because the cash crops could have been bearing throughout the whole period. Thirdly ... where once there had been general assumptions that only some land would be used, and that after the mine and lease ended the land would revert to its traditional owners, it was now clear that land had been destroyed and could never be of any social or economic use again. This was combined with the realization that when the mine eventually closed ... villagers ... would have no land left, few employment opportunities, no compensation payments, and more limited access to services. Fourthly, much of the compensation [had] been used by the recipients for short-term ends and/or local business development that had not been sustained... Fifthly, the compensation money was received by traditional landowners and family heads. Over time those children who became adults found access to that money difficult; moreover, young men sometimes had poor employment prospects ... whilst increasing population meant that particular sums had to be shared between more and more people.

This, combined with the diversion of compensation money to RMTLF after 1980, resulted in increasing demands for larger payments.

### *Distribution*

The disbursement of compensation caused ongoing contention between PNG, North Solomons Province and the Bougainvilleans. Friction between the national and provincial governments over their respective entitlement to shares in

the mine's wealth escalated and, according to Carruthers (1990), this was a fundamental issue in Bougainville's bid for independence in 1975.

The apportioning of royalties, occupation fees and compensation payments among the locals was an abiding issue which would, in time, become a pivotal element in the island's revolt. As early as 1971, Momis and Ogan noted that "compensation ... is unevenly distributed and, in fact, largely confined to the [people] closest to the mine site and port developments" (1971:36). Twenty years later, Camilleri would similarly observe that the "deep-seated resentment experienced by many Bougainvilleans is clearly connected to ... the uneven distribution of economic benefits" (1991:99). This had the effect of creating a 'moneyed class' which not only irked those who, because they did not live near the mine, profited little from its presence, but also concerned those who believed it was responsible for eroding Bougainville's largely egalitarian ways. In addition, a strata of wealth became apparent within the 'moneyed class' because entitlements from the mine were proportionate to the size of a group's landholdings.

A measure of the landowners' discontent may be traced to the decision to calculate occupation fees at a flat rate according to area (discussed earlier), as this approach created an imbalance in relativities of benefits per head of population. The manner in which individual 'titleholders' handled compensation income further exacerbated feelings of inequity. The fluidity of traditional land usage cannot be reconciled to the straight lines which represent mining leases on a surveyor's map. By segmenting the land and registering parcels to certain 'titleholders', BCL determined who should receive the payments due for a particular area. The way in which each recipient would distribute these funds among family groups was not a concern of the company. Leaders who did not share the income were accused of greed by fellow clan members, although Filer (1990:12) suggests that this may have resulted from "a simple absence of custom which prescribes the proper way to redistribute rent". The controlling or keeping of the group's receipts by individuals caused anger among others with claims on the land, particularly younger members. In time, the 'new' generation would come to challenge the elders' authority to manage the groups' income from the mine.

### *The 1980 Compensation Agreement*

Several events in 1979–1980 led to the emergence of a revised compensation agreement between BCL and the villagers. Firstly, the occupation fee rate became due for renegotiation. Secondly, BCL was becoming aware of the abovementioned dissatisfactions over the quantum and distribution of payments. Thirdly, the Panguna Landowners' Association (PLA – refer to Chapter 6) was agitating for changes to the occupation fee/compensation package. Although slow to respond to these pressures (Oliver, 1991), the company met the PLA to forge an arrangement suitable to both parties. Quodling (1991:49-50) summarises the outcomes of these discussions:

The result was a five-year compensation agreement formalised in 1980 to cover the period March 1979 to March 1984. This incorporated:

- an occupation fee payable in respect of all BCL leased land and expressed in two components: statutory (K5 per hectare<sup>81</sup>) and Panguna regional (K25 per hectare<sup>82</sup>);
- physical disturbance compensation payable in respect of leased land physically disturbed by BCL operations; K10 per hectare<sup>83</sup> plus annual CPI<sup>84</sup> adjustment;
- social inconvenience compensation payable in respect of all BCL leased land: K15 per hectare<sup>85</sup> plus annual CPI adjustments;
- bush compensation payable for loss of rights associated with the bush in leased areas and to be retrospective: K7.41 per hectare<sup>86</sup> plus annual CPI adjustment;
- river and fish compensation: K150,000<sup>87</sup> annually, subject to CPI escalation;
- formalisation of crop compensation rates and village relocation responsibilities.

In addition, provision was made for some of the money (in particular inconvenience payments and bush compensation back payments) to be made into a trust fund... [That is, the RMTLF detailed previously.]

This agreement was renewed in 1984, and formalised a second time to cover the period March 1986 to March 1990.

### **The Bougainville Initiative**

The Melanesian Alliance Party (MAP) was founded in 1982 by Fr John Momis (see Appendix L) and a New Britain politician named John Kaputin. The party's *raison d'être* turned on the priest's determination to "ensure his distributist

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<sup>81</sup> A\$3.33/US\$3.90 per hectare; A\$8.25/US\$9.70 per acre.

<sup>82</sup> A\$16.65/US\$19.60 per hectare; A\$41.10/US\$48.40 per acre.

<sup>83</sup> A\$6.67/US\$7.85 per hectare; A\$16.45/US\$19.35 per acre.

<sup>84</sup> Consumer Price Index. The average percentage change which occurs in the prices of commodities commonly bought by households over a specified period of time.

<sup>85</sup> A\$10/US\$11.75 per hectare; A\$24.70/US\$29.05 per acre.

<sup>86</sup> A\$4.95/US\$5.80 per hectare; A\$12.25/US\$14.40 per acre.

<sup>87</sup> A\$100,000; US\$117,700.

ideology would prevail over [NSP Premier] Hannett's 'capitalist road'" (Griffin, 1990a:11). As part of the MAP campaign in the 1987 national elections, Momis presented BCL with a manifesto titled the 'Bougainville Initiative Fund'. Under a thinly disguised threat of mine closure, the letter dated May 4 (reproduced in Appendix P) proposed a 'fresh start' for both BCL and the Bougainvilleans, informed of the operation's inefficiencies, accused the firm of a K60 million (US\$54.5 million) a year transfer pricing scheme with the smelters, blamed the mine for fostering the island's dependency on it, and demanded payment of 3 per cent of BCL's income (K12.6 million/US\$12.8 million in 1986) to the NSP government. (The claim of transfer pricing with the smelters was strenuously denied by the company at the time, and the writer has been unable to find any evidence of this practice having occurred.)

Although the Bougainville Initiative "received short shrift from the national government" (Oliver, 1991:196), "the idea of an escalation in the level of funds flowing direct from the mining operation to the province received wide provincial support" (Quodling, 1991:51). As its propositions were a feature of the forthcoming polls, it presumably played a part in the re-election of Momis. It is interesting to note that the MAP saw increased payments as the solution to Bougainville's enmity with the mine rather than the total withdrawal which many locals wanted. As intimated in the company's response dated 11 May (see Appendix P), BCL did not acquiesce to the Initiative's demands because it was bound by the conditions of the 1974 *Bougainville Copper Agreement* and, in probability, was loathe to become involved in national-provincial politics.

On 25 May 1987, Momis forwarded a further letter which indicated wide support for the MAP's demands. Oliver (1991:198) quotes from this document:

I have with me representatives of the local villages, Ministers in the Provincial Government with portfolio responsibility for the mine's impact on our culture. I also have with me the leader of the trade unions. You will also be aware that the [Catholic] bishop of Bougainville is keenly awaiting news of the outcome of these talks, to discover what progress has been made. Indeed, all people of Bougainville now expect concrete results, and your detailed response to our original Bougainville Initiative.

Quodling (1991:52) regards the Bougainville Initiative as the prime catalyst of the war which was to come. He writes: "The people of North Solomons Province, their expectations raised by pre-election rhetoric but shattered by the realities of post-election politics, had just cause for frustration and discontent".

## CHAPTER SUMMARY

The history of the Panguna mine is, to a large degree, a reflection of the social and political environment discussed in Chapter 4. Initially viewed by Australia and later by PNG as a means of making an emerging country financially viable, successive administrations encouraged CRA/BCL in its endeavours with little apparent regard to the unique nature of Bougainvillean culture. Although bound by the law and relying on monetary solutions, both of which were alien to Bougainvillean traditions, the mine's management displayed a cultural sensitivity and propriety far beyond that of the various levels of government in PNG, and appears to have taken all reasonable measures to make the mine acceptable to the people of Bougainville. That the relationship between Panguna and the Bougainvilleans was always strained and all but collapsed by 1988 is evidence that management efforts were insufficient. Yet a review of the fundamental issues indicate that local dissatisfaction with the mine resulted from factors exogenous to, and often beyond the control of, management. These included (i) environmental degradation, (ii) land alienation, (iii) government indifference to the needs and desires of the islanders, the provincial authorities and the company, (iv) the Bougainvilleans' perception of their ethnic identity, (v) the problems associated with an escalating population, and (vi) the landowners' disputes among themselves about the distribution of compensation funds.



# **CHAPTER 6**

## **THE BOUGAINVILLE REBELLION**

### **OBJECTIVES OF THE CHAPTER**

This chapter reviews and analyses the situations which developed from the histories discussed in Chapters 4 and 5. The chapter has three objectives. First, to describe the events which led to the Bougainville rebellion and to detail the war itself. Second, to consider how PNG and its neighbours responded to the crisis. Third, to explain the effects of the revolution on those involved. The events and issues which emerge in this chapter provide understanding of the human and economic consequences of operating foreign ventures in a developing society, and of the challenges and uncertainties which confront the managers of MNEs.

### **BOUGAINVILLE'S DESIRE FOR INDEPENDENCE**

#### **Introduction**

The war which engulfed Bougainville cannot be regarded as the start of the crisis, rather it is the culmination of a discontent which had been simmering since European settlement. As the preceding two chapters have demonstrated, the culturally unique islanders have struggled to retain their dignity, identity and land for almost a century. This section investigates the Bougainvilleans' reactions to the circumstances of their modern history.

#### **Emerging Nationalism**

Before WWII, the Bougainvilleans seemed to grudgingly accept their domination by foreigners, but the particular horrors which were the hallmark of the Japanese throughout Asia and the Pacific somehow forged a psychological readjustment to their perception of outsiders. Reflecting on this, Oliver (1991:77) writes:

...the changes undergone in the mental attitudes of some of them - towards whites and towards themselves - served to ensure that relations between the two would never again be as they were before the war. ...the whole war experience seems to have nourished a view among them that no colonial regime is necessarily perpetual.

Peace found Australia redefining its relationship with PNG. Its previous indifference was replaced with policies of material and political development, as well as encouragement for eventual independence. The two factors which drove Australia's commitment to PNG were gratitude and self-defence. Australia was

indebted to the Niuginians, without whose legendary and heroic assistance in the war, the Allies could not have succeeded in defending the region (Standish, 1984). Australia was also mindful of PNG's strategic importance, as E. J. Ward, then Minister of Territories, noted: "for its own protection Australia cannot afford to permit the territories to remain undeveloped or its native population to remain in a backward stage" (cited in Oliver, 1973:143). Thus Canberra phased out the indenture system, introduced universal primary education, paid around A£1 million (A\$2 million/US\$2.9 million) in war compensation, and subsidised the developing PNG economy.

Although official post-war policies voiced concern for the well-being of the Territory's people, much of the Bougainvillean population believed this to be hollow rhetoric. There was little "genuine economic development that the Government could boast of" (Hannett, 1975:288), the Administration headquarters at Sohano (in the Buka Passage) was isolated from those it professed to serve, and the programs which emanated therefrom were devised in Canberra and Port Moresby with little consultation. The introduction of local government councils in the early 1950s was seen by many as a move to 'Westernise' the locals. As a result, pockets of Bougainvilleans began to agitate for an end to Australia's trusteeship, as evidenced by the 1962 Nasioi petition for the UN to transfer the mandate to the USA (refer Chapter 4).

The 1964 elections for the new House of Assembly gave Bougainvilleans their first opportunity to have some input into their affairs. Nine indigenous aspirants contested Bougainville's 'open electorate' (for PNG citizens) with Paul Lapun, a candidate with an indifferent attitude towards the Administration (Oliver, 1973:156), winning by a wide margin. Votes in the 'special electorate' (reserved for whites) numbered only 58 per cent of those cast in the open electorate.

Lapun registered Bougainville's interest in joining the Solomon Islands in March 1967 (Bedford & Mamak, 1977:21), but it was 18 months before the matter was considered formally. In September 1968 a group of North Solomons politicians, public servants and students asked Lapun to petition the Administration to:

allow Bougainville to go it alone, or else arrange for a plebiscite or referendum to find out conclusively the Bougainvillians' views on the following political alternatives:

- whether Bougainville should form an independent nation on its own; or
- leave Papua New Guinea and unite to form one nation with the British Solomon Islands south of Bougainville; or
- remain with Papua New Guinea (Oliver, 1991:183).

The basis of the representation (fully documented in Appendix Q) was the widely held Bougainvillean sentiment that they are fundamentally distinct from the Niuginians. The Administration was not persuaded to conduct a referendum on secession, however.

### **Bougainvillean Associations and Alliances**

Foreign administrations, missionaries, the war, and expanding commercial activities provided avenues for wider social contact among the hitherto isolated and individualistic Bougainvillean communities. Their exposure to each other, as well as Niuginians and Europeans, "developed a sharpened sense of common ethnic identity amongst themselves" (Oliver, 1973:202). The evolving sense of commonality not only fostered a diminishing sense of belonging to Australia or the united PNG that was emerging, but also gave rise to the realisation that their relative powerlessness could be overcome, at least in part, by organising the wider indigenous community in political and commercial activities.

#### *The Hahalis Society*

The first demonstration of collectivism came in the 1950s when two Buka students formed a co-operative with 30 others to sell local goods to traders. Registered as a private company in 1966, the Hahalis Society grew to 50 shareholders with 5,000 participants in its economic ventures. While its ethic of self-reliance and hard work was lauded by the Administration and missions (Oliver, 1973), some aspects of the Society's philosophy were not well received by the 'establishment':

Its ideology was a melange of cargoist<sup>88</sup> thinking about the possible nexus between ritual, productivity and money, opposition to an administration and a Catholic Church which had failed to provide material progress, desire for communal autonomy, and sexual permissiveness aimed at, among other things, restoring putative traditional practices and at the same time breaking (by then) customary constraints on the availability of women (Griffin, 1990a:18).

In 1962 the Society, whose members refused to join the local government council on the basis that Port Moresby had done nothing to advance the Buka region, refused to pay an annual head tax to the council (Havini, 1990b). As Administration officials were unable to collect the tax from Hahalis leaders, police were sent to arrest them. This resulted in a riot. A further 155 officers arrived,

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<sup>88</sup> The 'cargo cult', prevalent on Bougainville since the 1950s, is described by Ogan (1974:118) as "...a form of supernatural recipes for obtaining European goods. Rituals, including new songs and prayers to the Virgin Mary and other figures in the Christian pantheon, were held in cemeteries, implying that the spirits of the dead were to produce money, clothing, Land Rovers and other implements from opened graves."

but these were quickly repelled by the crowd. The disturbance was finally quelled when 400 reinforcements moved in and arrested 256 Bukas. Receiving jail sentences ranging from 3 to 6 months, the offenders were freed after 2 months on a legal technicality. Upon their release, the rebels "resumed their opposition to missions and administration, and large numbers of other Buka islanders flocked to join them, further swelling their ranks" (Oliver, 1991:89).

As an expression of political self-determination, the Hahalis protest proved a victory for Buka people and resulted in the Administration building a road which greatly assisted the Society's trade. Griffin (1990b:73) believes the 1962 revolt

...had at least three effects: it shocked the Catholic Church into greater concern for the material welfare of its flock; it alerted the mission to the need to assume the mantle of "justice for the people" lest, in schism and shame, it lost a jewel in its crown to cultists; it began a North Solomonese conviction that Port Moresby would act on their behalf only if its authority was threatened.

The Hahalis Society continued to be a political force, having a representative on the Bougainville Special Political Committee (see below).

#### *The Fifty Toea Movement*

Several communities around Panguna formed the Bauring Society in the 1960s. Its 4,000 members were committed to retaining Bougainvillean traditions and refused to accept any form of 'modernisation'. Oliver notes that the movement

...opposed formal schooling for their children. They were against development, advocating that minerals should be left in the ground, and were against the government, having refused to vote in national or provincial elections. The tenets also included beliefs in *kago* (cargo)... (1991:181).

The movement became known as the 'Fifty Toea Government' because of its 50 toea monthly subscription. Many of its members would eventually join Ona's group of revolutionaries (May, 1990).

#### *The Bougainville Special Political Committee*

Mounting grievances against various entities (particularly the Administration and BCL), and wide-spread disenchantment with local members of the House fuelled calls for secession in the early 1970s. PNG Chief Minister Somare responded by promising that Bougainville's views would be included in the agenda of the Constitutional Planning Committee (CPC) which was structuring PNG's forthcoming independence. A local group was formed to make recommendations to the CPC, and to "explore ways to improve relations between the central government and the Bougainville District" (Oliver, 1991:189). This body was short-lived, however. At the Combined Local Government Council Conference in

February 1973 it was resolved that a separate party, the Bougainville Special Political Committee (BSPC), would be established to replace Somare's committee. With Hannett, Momis, Lapun and Moses (refer Appendix L) in charge, the BSCP abandoned its agenda of secession in favour of seeking "ways by which the district could obtain and operate its own, more autonomous government within [PNG]" (Oliver, 1991:191). Of the BSCP's 6 member executive, 2 held positions in BCL, and Moses was the leader of the BMWU.

The inaugural BSPC conference in May 1973 was attended by 4 members of the House of Assembly, the presidents of the local government councils, members of the Panguna Mungkas Association (see below), representatives from outer islands, village elders and urban workers (Mamak & Bedford, 1974). Havini (1990b:21), a BSPC member, describes the mood of the conference:

A comprehensive report was prepared by BSPC especially relating to draft a proposal for provincial government. There was a feeling that through this second tier of government, provided it was endowed constitutionally with substantial autonomy politically, administratively and financially, Bougainville would be happy to remain with [PNG].

The national government rejected the BSPC proposal which included local control of natural resources, collection of major taxes, and Bougainvillean receipt of mining royalties. The submission appears in Appendix R. Faced with renewed threats of secession, Somare agreed to negotiate and Bougainville's district government was born on 5 July 1974. "Called the Provincial Government, it was composed of elected officials and had a few administrative duties ... but no substantial taxing or legislative powers" (Oliver, 1991:193). Angered by the Provincial Government's lack of localised power, many Bougainvilleans refused to acknowledge its authority and declared independence on 1 September 1975.

#### *The Panguna Mungkas Association*

The mine brought large numbers of Bougainvilleans together for the first time and, inevitably, the indigenous workers developed informal groups through which they could exploit their new opportunities and protect their common interests. In April 1973 a band of employees established the Panguna Mungkas Association (PMA), a fraternity "founded on the unity of Bougainvillean workers in contradistinction to other ethnic groups employed by the company, and in opposition to company policies which were perceived to 'threaten' them" (Mamak & Bedford, 1974:15).

Initially the PMA concerned itself with infringements of native workers' rights which went undetected by the BMWU, but when a Bougainvillean suspected of shoplifting was assaulted by company security officers the Association found its sense of community, drafted a constitution, and resolved to take an active role in protecting the legal rights of all Bougainvilleans living in the area. In July 1973 BCL officially recognised the PMA and established liaison with its officials.

The PMA did not prove to be as effective or influential as its founders had hoped. The primary problem was competition for loyalty; many PMA members were variously associated with the BSCP, the BMWU, and other staff associations which dealt with their particular concerns. Also, some PMA leaders held high positions in BCL. Despite the company's sanctioning of the movement, it was reluctant to deal with the association on two counts. Firstly, affording the PMA any treatment not available to all employees was discriminatory, and secondly, as Bougainvilleans formed over 30 per cent of the workforce, there was a danger of organised actions against the company's interests.

#### *The Panguna Landowners' Association*

During the 1960s and 1970s, Bougainvillean landowners generally acted independently. Dealings between themselves, with CRA/BCL, and with the various authorities were conducted on an *ad hoc* basis. In order to provide a forum in which they could discuss common issues and present a united front, the Panguna Landowners' Association (PLA) was formed in 1979 under the leadership of Michael Pariu. The Association was directed by an executive comprising landholders and village elders (Dorney, 1990), and membership encompassed all landowners within the leased areas (Oliver, 1991).

Once established, the PLA presented BCL with a list of long-standing grievances. The company's lack of response (Oliver, 1991), and its non-recognition of the PLA's authority (Griffin, 1990b) resulted in a demonstration at the minesite headquarters and the looting of a company supermarket. BCL then responded and negotiations were set for 4 July 1980, the outcome of which was the 1980 Compensation Agreement (detailed in Chapter 5). The signing of the agreement strengthened the PLA because (i) it forced formal recognition from both the provincial government and the company (Okole, 1990), and (ii) winning substantial increases in fees and compensation enhanced the executive's credibility among its constituents (Quodling, 1991). A new era seemed to have dawned among the landowners. Content with the executive, they now operated in

a co-operative spirit, met at regular intervals, and had a good working relationship with BCL (Dorney, 1990).

The heterogeneity characteristic of Bougainvillean society eventually overtook the PLA however. Its demise has been attributed to various factors:

- As the regularity of meetings declined, members had to 'bottle up' grievances which caused an accumulation of bad feeling (Okole, 1990);
- Poor education or not understanding the responsibilities attached to their office led some executives to only nominally occupy their positions (Okole, 1990);
- The executive had not been formally elected (Dorney, 1990);
- Regardless of what monetary packages the PLA might win for the landowners, many members were becoming concerned about the increasing social and environmental damage caused by the mine (Oliver, 1991);
- The difficulties experienced by the RMTLF reflected on the PLA within which the Fund had been established (refer Chapter 5);
- There was an increasing perception amongst members that the PLA board was accommodating BCL at the expense of landowners' welfare (Okole, 1990);
- Young people became less willing to accept their status of junior members of their landowning groups, and demanded a larger share of the money received by the older members (Oliver, 1991); and
- Because recent compensation agreement did not provide the large increases in payments which had characterised the 1975 and 1980 arrangements, many members blamed the competency and/or resolve of the older negotiators (Quodling, 1991).

The PLA split into two factions with the formation of a breakaway group headed by Perpetua Serero and Francis Ona (see Appendix L) resulting in "two different organizations representing the interests of the landowners; these were known as the 'old' PLA and the 'new' PLA" (Okole, 1990:20). On 2 September 1987 Serero wrote to BCL informing that all its future dealings with the PLA were to be directed through herself, and threatened "Any slight move or involvement of your office with those out-going committees will result in massive demonstration" (cited in Oliver, 1991:205). Pariu distanced the 'old' PLA from Serero/Ona group in a letter to BCL on 29 September, claiming these people were "manipulated" and "not representative of the whole area" (Quodling, 1991:57).

Whilst neither the government nor BCL officially recognised the 'new' PLA, it was clear that the coup was a serious issue as it had the support of Premier Kabui (see Appendix L), Fr Momis, and the locally powerful Catholic Church (Dorney,

1990). BCL continued to deal with the 'old' executive, but sought legal advice from the PNG court as to who should receive the 1988 inconvenience payments. In April 1988, the 'new' PLA lodged a series of demands on the government and the mine; these are summarised by Okole (1990:21):

- (i) a general compensation payment of K10 billion [A\$16 billion / US\$11.6 billion] to offset the amount of environmental destruction caused by the mining operation so far and
- (ii) a demand for landowners to acquire the 20 per cent share of the mining project presently owned by the national government, which was justified by the belief that the ... government had never paid for this shareholding in the first place.

But these general demands were accompanied by a number of more limited demands which were seen to require more immediate action. These were:

- (iii) an amendment of the 1969 Land Titles Agreement, which had been used as the basis for subsequent compensation payments and which was said to be in conflict with the matrilineal inheritance customs of the landowners;
- (iv) an entirely new survey of customary land titles to be carried out in the three main lease zones, in order to rectify ... mistakes which were thought to have been made in the original surveys;
- (v) an increase in employment, training and business opportunities for the landowners, which BCL was said to have neglected;
- (vi) an improvement in the monitoring of environmental damage, and in actual control of chemical pollution, soil erosion, etc.;
- (vii) an overall improvement in the living standards, especially housing standards, of the landowners, particularly those who had been resettled by BCL, in accordance with promises which BCL was thought to have broken;
- (viii) a general change in the condescending attitude of the company and the government towards landowners.

Further, BCL was expected to pay 50 per cent of all future profit to the landowners and the provincial government, and transfer ownership of the mine to the landowners within 5 years (Griffin, 1990b). As the company did not respond, the 'new' PLA blocked the road to the mine on 17 May, thereby forcing the government to broker a truce pending the outcome of the AGA study (noted in Chapter 5).

### **Towards Secession**

Because the PNG government had gained a huge revenue boost from the *Mining (Bougainville Copper Agreement) Amendment Act 1974*, the provincial government sought payment of all royalties (rather than the present 5 per cent) to the island claiming it was the Bougainvilleans who were suffering the negative consequences of the mine. Port Moresby refused the province's request, arguing that the entire country should benefit from mining. In response, on 30 May 1975, the provincial assembly under the leadership of Alexis Sarei (see Appendix L) voted to secede. After two failed attempts to negotiate a settlement with PNG,



a declaration of independence and a flag raising ceremony took place on 1 September 1975 and the name 'North Solomons' (to signify ethnic affiliations separate from PNG) was adopted. This ... ceremony was followed by representations to the United Nations by Fr Momis, but with little apparent success (Quodling, 1991:18-19).

PNG gained independence two weeks later and for the following eleven months Bougainville was in upheaval as the two sides attempted to find peace. In August 1976 the secessionists withdrew their claims and agreed to keep Bougainville within PNG. Of the terms of settlement, Lawson (1993:66) notes that "the price for this [agreement] was an especially favourable financial formula for Bougainville, and the adoption of the Organic Law<sup>89</sup> on Provincial Government[s]... This law has been described as 'almost a treaty' between the secessionist leaders and the national government." Havini (1990b) reports that between 1976 and 1987 Bougainville was relatively peaceful, but the secessionist feelings of the 1975 declaration did not subside. Independence was discussed continually, and became an open issue during the provincial and national election campaigns.

The preliminary report of the AGA study was released at a meeting on 18 November 1988. Predictably, many landowners present at the meeting objected to its findings (refer Chapter 5) and Ona declared it a 'whitewash'. He "stormed from the meeting and three days later resigned as a surveyor with BCL" (Griffin, 1990b:76). Ona then announced over national radio that, as spokesman for the PLA,

...he and his associates had no confidence in BCL or in the national government; that the AGA scientists ... had wrongly exonerated BCL; and that in the absence of other measures to protect the lives and welfare of Bougainvillians, the New PLA had decided to close the mine (cited in Oliver, 1991:208).

It is unclear whether Ona also declared his intention to force Bougainville's breakaway with PNG during this broadcast because "the tape of the interview has 'disappeared'" (Oliver, 1991:208).

## Rebellion

Minor acts of sabotage had been instituted against the mine in the weeks preceding the broadcast, but on 22 November three men raided the BCL magazine and stole a large amount of explosives. Further explosives were taken

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<sup>89</sup> The organic law was incorporated in the PNG constitution and provided for the incremental transfer of powers from Port Moresby to the provinces when they were capable of dealing with them. "The intention of the organic laws was that the national government would gradually move out of a lot of legislative fields in which the provincial governments had responsibilities, leaving the provinces free to pass their own laws" (Dorney, 1990:167).

from another magazine in the following week. A series of arson attacks on mine buildings commenced on November 26, and on December 1 the stolen explosives were used to destroy a pylon carrying power to the ore-processing plants. True to his threat, Ona had halted the mine's production, albeit temporarily. He and his militants, now calling themselves the Bougainville Revolutionary Army (BRA), then fled to hide in the mountains.

Meanwhile BCL managing director, Bob Cornelius, was in Port Moresby meeting with national and provincial government leaders. Originally concerned with compensation matters, the government officials changed tack when they learned of the destruction of the power pylon. Recognising that the BRA posed a real threat to PNG's economy, they now made peace overtures to the rebels. Police reinforcements were sent to Bougainville, and Fr Momis (Minister for Provincial Affairs) was dispatched to dissuade the militant landowners from the use of violence.

Electricity was restored to the mine on December 4 only to be disrupted the next day by the bombing of another pylon. Concerned for the safety of its personnel and property, BCL suspended operations and sought a guarantee from Prime Minister Namaliu that the mine would be protected. Reassured by a 400 strong police presence and all-night curfews, the mine re-opened on December 11. Appeals from Namaliu and Kabui for Ona to come out of the bush and open negotiations were met with the following demands:

- that Bougainville Copper Limited pay the K10,000 million compensation demanded by the landowners, *and* immediately shut down its operations;
- that PNG adopt a new economic order (because he stated, the country's economic base is controlled by a white mafia); and
- that North Solomons Province break away from PNG unless the new economic order is adopted (Oliver, 1991:213).

The rejection of Ona's ultimatum spawned renewed attacks by the BRA and savage responses by the police. The rapidly deteriorating situation prompted PNG to propose the 'Bougainville Peace Package' in May 1989; this included:

- sale at cost price (half to the landowners, half to the provincial government) of 4.5 per cent equity in BCL, to be paid for from future dividends, plus another 5.1 per cent at market price (the shares to come from the ... equity owned by the national government);
- an annual compensation grant to the provincial government of K5 million [A\$6.9 million / US\$5.85 million] and
- a national government-financed development program, including the construction of roads, schools, and health facilities (Oliver, 1991:213)

In addition, BCL agreed to undertake various construction projects desired by landowners, worth K41.5 million (A\$57 million / US\$48.5 million). Rather than easing hostilities, the government and company initiatives seemed to heighten tension and inflame further violence. Little is known about the internal operations, strategies and membership of the BRA during this period, but it is certain that its numbers were growing and several military trained men were recruited (Oliver, 1991).

On May 15, BMWU members walked off the job after employees were attacked by "men armed with spears and other weapons" (Peers, 1989:22) and, unable to assure the workers' safety, management elected to defer operations. With a government promise of additional forces to protect employees, the union agreed to return to work on 21 May, but this was aborted when the BRA shot an Australian worker and ambushed four buses carrying BCL staff to work. These actions were significant in that they resulted in a number of expatriates leaving the island (Callick, 1989), and "was weighty evidence that the militants' intelligence was efficient and that the militants themselves did not wish mining to resume" (Oliver, 191:215).

With the mine still idle a month later, BCL retrenched 600 'non-core' employees (Quodling, 1991) and on 26 June, Namaliu declared a state of emergency as the government could not convince the rebels to accept the peace plan. To this point "at least 15 people, including three soldiers, [had] been killed in the violence" (Young, 1989:7). The state of emergency was accompanied by the deployment of increased security forces with extended search-and-arrest powers. Under orders to "end the militancy as quickly as possible" (Oliver, 1991:219), the PNG troops immediately launched an offensive on Guava village which was "branded as the heart of the small but deadly insurrection on Bougainville" (Woodley, 1989:3). Following this, hostilities lessened and BCL began to repair its damaged property with a view to recommencing operations on 1 September. The mine opened on 5 September, but was closed 8 hours later when another power pylon was destroyed.

In an attempt to stem the growing occurrence and savagery of the BRA sieges, a traditional Nasioi peace ceremony was held in Arawa on 27 October, "calling on all parties to cease hostilities and to restore law and order to Bougainville" (Oliver, 1991:221). But little was achieved, and warfare continued unabated. Further attacks on Panguna's facilities occurred during November and December and, in the face of mounting danger to its employees, BCL placed the mine under

a 'care and maintenance' program. A total of 2,000 expatriate and Niuginian employees were dismissed (Howarth, 1989), and the care and surveillance of the mine was taken over by local contractors (Quodling, 1991). In February 1990 the company evacuated its remaining 300 employees (Dunstan, 1990). The Panguna mine was closed.

When the rebellion erupted in November 1988, it was waged against the mine, its activities, and compensation issues. In April 1989 Ona advised the NSP government that secession, not compensation, was now his focus (Quodling, 1991). The continuance of the war after the mine's closure confirmed this. Not only had the target of the fighting shifted however, the 'tone' of the war was also changing. The murder of John Bika, the NSP Minister for Commerce, on 11 September 1989 led cabinet to give the military *carte blanche* in its operations on Bougainville (*Bougainville: A Pacific Solution*, 1994), and offer a K200,000 (A\$275,000 / US\$234,000) reward for Ona's capture (Polomka, 1990b). PNG troops took full advantage of this extended 'authority' and embarked on a campaign of destruction and human rights violations ranging from the burning of villages and looting to beatings, pack-rape, sexual mutilation and extra-judicial executions (Amnesty International, 1993; Havini, 1990a; Spriggs, 1990).

With no evidence of Bougainvillean resolve weakening and Ona still at large by the end of 1989, Port Moresby ordered a full-scale offensive on the island. On 12 January 1990, 'Operation Footloose' was launched by about 2000 security force personnel (O'Callaghan & Peake, 1990) and weeks of bloody combat ensued. The campaign was a failure. Not only was it unsuccessful in subduing the BRA, the escalating incidence of murder and torture by PNG troops was reflecting badly on the nation. The 'St Valentine's Day Massacre', in which soldiers executed five civilians then threw their bodies into the sea from Australian supplied helicopters (*Bougainville: A Pacific Solution*, 1994), brought such criticism from home and abroad that the government agreed to negotiate. A cease-fire came into effect on 2 March 1990, and within a fortnight the PNG forces had left Bougainville.

The Bougainvilleans' determination was unexpected. In the early days of the war they were divided in their support for the BRA and over the question of secession. But as they watched their land again being invaded by a foreign army and their compatriots again suffering at the hands of aliens, they joined forces to reclaim their island. Lafitte (1993:306) explains the Bougainvillean sentiment:

For the first time, the entire island was united in its wish to be rid of PNG. This was an act of self-determination in which most of the selves were actively involved, in contrast to the 1975 procedures for self-determination by which PNG became a nation, and which lacked a popular movement behind them.

## **The Declaration of Independence**

The withdrawal of the PNG militia effectively left the BRA in *de facto* control of the island. Establishing their headquarters in Panguna, the revolutionary forces were "charged with maintaining law and order" (Oliver, 1991:237). Anxious to resolve the crisis, the central government adopted a more conciliatory stance and declared it was willing to grant Bougainville numerous political and financial concessions. PNG was adamant, however, that it would not entertain demands for secession. Namaliu and Kabui made tentative arrangements for negotiations but these dissolved when, in Namaliu's absence, the PNG Executive Council declared a blockade of all goods and services effective from 2 May. The BRA responded by declaring independence (detailed in Appendix S) and on 17 May a ceremony was held at Arawa to announce the founding of the Republic of Bougainville with Ona as Interim President of a 13 member executive.

Although there was no concern that any state would recognise the Republic of Bougainville (Griffin, 1990b), the declaration of independence represented a threat to PNG stability as a successful breakaway may have been interpreted as "a precedent for other secession initiatives, particularly in areas hosting other major mineral or oil discoveries" (Quodling, 1991:61). Namaliu and the Bougainvillean leaders agreed to meet in Honiara on 11 June but this was postponed when Ona refused to attend because he feared for his life (Oliver, 1991). The meeting was subsequently abandoned when PNG naval vessels sailed into Honiara.

The human cost of the Bougainville revolution cannot be accurately judged. Amnesty International (1993) reports that, by May 1991, an estimated 1,500 had died as a direct result of the war and a further 3,000 had fallen prey to malnutrition and preventable diseases as a result of the PNG embargo. The *Green Left Weekly* (1997) suggests that the death toll had risen to 15,000 Bougainvilleans and 1,000 PNG soldiers by 1997.

## **Early Peace Initiatives**

### *The Endeavour Accord*

Wanting to commence peace talks, but with the safety of delegates concerning all parties, PNG approached New Zealand (NZ) to provide a neutral venue.

*HMNZS Endeavour* and two support vessels were supplied as facilities for the negotiations and, anchored in Bougainvillean waters, meetings commenced on 29 July 1990. Whilst much of the dialogue was acrimonious and failed to address the political impasse, agreement for the restoration of services to Bougainville was reached on 5 August. Details of the accord appear in Appendix T.

The Endeavour Accord failed, and the promised restoration of services did not eventuate. Whilst there were various political manoeuvres at play, the two predominant reasons for the collapse of the accord were:

- i) Disagreements as to who would administer the distribution of supplies and services, where the material would landed, and who would protect the people delivering the goods (Dorney, 1990).
- ii) The bulk of the Buka inhabitants had not supported secession (Dorney, 1990) and when PNG withdrew from Bougainville, the BRA began to infiltrate that island. In response, anti-BRA residents formed the Buka Liberation Force (BLF) (Oliver, 1991). In September, the BLF invited the PNG army to Buka for protection from the BRA. Violence flared, and Kabui refused to negotiate until the troops left Buka.

#### *The Honiara Declaration*

Perhaps concerned about the ongoing suffering the embargo was visiting on innocent Bougainvilleans, or maybe worried by growing international condemnation, on 3 January 1991 Port Moresby announced that government services would be restored (King, 1991). Within three weeks a second round of negotiations were convened in Honiara and on 24 January the *Honiara Declaration on Peace, Reconciliation and Rehabilitation on Bougainville* was signed. Callick (1991:15) reported the essential elements of the agreement as:

...a joint programme of peace, reconciliation and rehabilitation, within the current constitutional framework; establishing legal and representative authority on Bougainville, and – more remarkable – "the constitutional role of the PNG Defence Force"; accepting a multinational supervisory team...; an amnesty for BRA members; restoring all services, including police and court; releasing all detainees held over the conflict; and a realistic timetable for implementation.<sup>90</sup>

Within hours of signing of the declaration, the BRA renounced its undertaking to destroy or surrender its arms (Oliver, 1991), and on 19 February a BRA member turned away the first shipment of relief supplies (*Bougainville: A Pacific Solution*, 1994).

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<sup>90</sup> The full text of the Honiara Declaration appears in Appendix U.

The events of 1988–1991 were the climax of Bougainville’s history of separatist sentiment; for the first time in nearly a century, the island was back in Bougainvillean hands. Although Port Moresby interpreted the uprising as a revolt against PNG, the insurrection was, in fact, a challenge to the legitimacy and authority of *any* non-Bougainvillean government. As Hannett (1975:287) notes, “Bougainvilleans [have never] ceded political sovereignty to any foreign nation”. Whereas the unrest was originally directed towards the Panguna mine, the dissidents’ real agenda was total sovereignty of the people, their land, and their resources.

The degree to which the mine was responsible for the Bougainville tragedy is difficult to assess. Because Bougainville’s will for self-determination predates the mine, Panguna was clearly a catalyst for, rather than the cause of, the war. Undeniably, the mine became the focus of discontent, but this was more a reflection of the locals’ objection to Panguna’s domination of Bougainville than a perception of any deliberately harmful objectives or practices on the part of the company. To the contrary, evidence suggests that management’s attitude to, and treatment of, the Bougainvilleans was generally positive, sensitive and benevolent. Nonetheless, the mine ‘ruled’ the island by default; its presence permeated the political, economic and social fabric of the island. It was, in effect, another foreign power which had been imposed unilaterally on Bougainville, but unlike the regimes of alien governments, the mine had a physical presence, making it an ideal target for the expression of frustration.

Until the war actually broke out, PNG had largely ignored the deteriorating situation on Bougainville. However, the closure of the mine and reports of escalating bloodshed focused international attention on the island, thus forcing the national government to act. As indicated by the failure of the peace programs, Port Moresby’s responses to the crisis were both too late and inappropriate.

## **THE CONSEQUENCES OF THE BOUGAINVILLE REVOLT**

### **Introduction**

This section focuses on the legacy of the war as it pertains to the four key players; the Bougainvilleans, PNG, Australia, and BCL. This investigation of the consequences of Bougainville’s declaration of independence provides a seminal example of the possible long-term and wide-ranging repercussions of conducting business in environments typified by cultural diversity and political uncertainty.

## Bougainville

The foregoing emphasis on the role of the Papua New Guinea Defence Force (PNGDF) in Bougainville's human tragedy does not imply the BRA is any less culpable in this regard. The rebels showed the national troops no mercy, and took savage revenge on islanders who expressed "any opinion short of total support for independence" (Lawson, 1993:68). Following the PNGDF's invited return to Buka in 1990, many Bougainvilleans moved there, "express[ing] their wishes for a return of government 'services', including protection from BRA domination" (Oliver, 1991:263). This display of local support for its presence encouraged PNG to gradually re-establish its authority in the province. Over the ensuing two years the army progressively recaptured Bougainville and, by mid-1993, the government had regained control over 90 per cent of the island (Davies, 1993). In 1994, troops took over the mine site. Callick (1994:60) describes the significance of this move:

the recapture ... of the Panguna mine depriv[ed] the rebels of their former headquarters and last major stronghold. After clearing away sabotaged pylons and working their way up a 17-kilometre jungle road, the troops took possession of the administration buildings ... and soon prompted a white flag from the nearby home of supreme rebel leader Francis Ona... "Getting in to Panguna is an historic time for Papua New Guinea, because [the rebellion] started from there," said Premier Wingti. "Panguna is the heart, the centre of everything."

Whereas the PNGDF had failed to capture the island in 1988–1991, its later successes appear to be primarily attributable to two factors. Firstly, Port Moresby seemed committed to its Honiara undertaking to seek peace through consultation and dialogue rather than through the force of weapons (*Post Courier*, 1994). This particularly applied to their conduct towards the civilian population (Davis, 1995). Secondly, as reported in *Bougainville: A Pacific Solution* (1994:14), the Bougainvilleans' alignment with the BRA was diminishing.

A series of events in 1991 and 1992 appear to have contributed to a drift of support away from the BRA:

- the BRA attempt to arrest a prominent Wakunai figure... [was] repulsed by local people;
- the holding hostage and subsequent burning by the BRA of the relief vessel, Cosmaris, in Kieta harbour;
- the rounding up of Roravana villagers by the BRA leader in ... 1992 leading to an exodus of Roravanans into the Wakunai PNGDF post;
- the death of former MP, Tony Anugu and two or three of his supporters at the hands of the BRA in April 1992; and
- the denunciation of the BRA by Catholic Archbishop Kurongku on 27 July 1992.

The restoration of much of Bougainville to PNG's control and the decreased intensity of the fighting was not an indicator of a return to normality, however. The PNGDF's three-year push south involved intense combat which caused



widespread destruction of villages and livestock, and inflicted heavy casualties on both sides (Amnesty International, 1993). Human rights abuses by the BRA and the PNGDF persisted, and medical care remained deficient (*Bougainville: A Pacific Solution*, 1994). Hostilities spilled over to Shortland Island in September 1992 when PNG troops raided the small Solomons community suspecting that it was supplying food and arms to the BRA. Two Shortlanders were killed and a child was wounded in the action (*The Economist*, 1993).

For Bougainvilleans, the twentieth century has brought war, social and economic upheaval, alien and neglectful administrations, significant damage to their natural realm, industrialisation, disease and death. Their suffering continues. Yet, in the face of these invasions, and as refugees on their own land, they remain committed to ethnic and political isolation.

## **Papua New Guinea**

The Bougainville crisis had a two-fold effect on Papua New Guinea; the loss of the Panguna mine left a huge economic vacuum and the war shook an already fragile political situation.

### *Economic Implications*

Aware that its viability as an emerging country depends on the exploitation of its vast natural resources, PNG has consistently supported mining ventures and viewed them as the key to national development. This philosophy has proved successful, as "most of the economic growth after independence [has been] in the mining sector" (Blewett, 1991:541). Between 1972 and 1989, Bougainville's copper generated K1.7 billion (A\$2.35 billion / US\$2 billion), of which 67 per cent was returned to the PNG and NSP governments and the landowners (Carruthers, cited in Quodling, 1991). The vacuum left by the mine's closure has had a serious effect on the PNG economy.

The abrupt loss of Panguna's contribution to gross domestic product, internal revenue and export earnings had an immediate and critical impact on PNG. The government was forced to devalue the Kina, apply to the World Bank for development loans, and approach Australia for increased aid. Domestic lending was arrested as the central bank tightened monetary policy (Korporaal, 1990).

Beyond the immediate financial crisis were concerns over the long-term effects of the Bougainville revolt. Paramount among these was the damage done to PNG's

reputation in the world investment community. With eroded predictability comes heightened commercial risk and, as Stevens (1991:20) reported, mining firms

... not already in PNG justifiably point to the risk of new ventures there. They argue that the events on Bougainville Island are indicative of a wider law-and-order problem and the closure of the mine vindicates their decision to stay out of a country that in recent years has provided competitors with some of the biggest-ever finds.

Throughout the 1990s, investor confidence in PNG's mining sector slowly improved with the opening of the Porgera and Lihir gold mines, the Kutubu oil fields, and the Frieda River/Nena copper and gold prospects. Yet, as Davis (1995:87) observes, Stevens' earlier comments remain valid:

PNG's record of running the resource projects that provide the bulk of national income is getting worse. ...BHP's<sup>91</sup> Ok Tedi is under siege from landowner litigation and now the law and order and logistics difficulties at Porgera ... have been compounded by an environmental lawsuit in the Ok Tedi style.

The recent law suits and indigenous resistance to mining are not remote from the events on Bougainville. The fundamental issues surrounding compensation which closed Panguna remain unresolved. With no consensus as to (i) an agreed quantum of compensation, (ii) the distribution of mining revenue between provincial and national governments, and (iii) whether landowners should be compensated with prescribed sums for certain losses or whether reimbursement should be based on the value of the wealth extracted, the potential for ongoing disputes is virtually unlimited. Further, the Bougainville experience has provided a model for landowners to "hold developers to ransom for larger compensation payments and benefits from projects – at the risk of disruption to operations" (Carruthers, 1990:40).

The need for foreign exchange resulting from Panguna's demise has weakened PNG's bargaining position with overseas investors. This is manifest in the Ok Tedi case<sup>92</sup> where critics claim successive governments have surrendered to BHP's demands. According to Nicholas Styant-Browne, the solicitor representing the Ok Tedi landowners, "as [PNG's] principal income earner, BHP is able to exert enormous duress" (ABC<sup>93</sup> TV, 1995).

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<sup>91</sup> Broken Hill Proprietary Limited

<sup>92</sup> In mid-1994, landowners in PNG's Western (Fly) Province launched a class action suit in the Victorian (Australia) Supreme Court claiming that "lives, jobs and lifestyles have been injured by pollution from BHP's Ok Tedi copper mine" (ABC TV, 1995). By 1995, the Ok Tedi mine accounted for approximately 20 per cent of PNG's export earnings. In 1999, BHP announced its intention to withdraw from the Ok Tedi venture.

<sup>93</sup> The Australian Broadcasting Corporation; Australia's government-funded national radio and television service.

PNG has survived the loss of the Bougainville mine, but its economic progress has been severely retarded. Despite the success of new minerals and petroleum ventures and huge injections of overseas funds, the country needed Panguna to provide the human capital, employment opportunities, and infrastructure required to provide sustained economic growth. For PNG, the closure of CRA's giant mine has been an opportunity lost.

### *Political Implications*

PNG's "chaotic, intensely fractional" politics (King, 1991:27) has never augured well for smooth government, but the Bougainville situation was, and remains, the country's most damaging upheaval (Filer, 1990). In the early days of the uprising, when the anger was directed towards BCL, Port Moresby's outward pragmatism over PNG's need of Panguna's revenue veiled the sympathy many politicians held for the Bougainvilleans (Dorney, 1990). As the problem deepened, Cabinet was split on how the country should approach the issue and the debate became polarised. Namaliu's government was virtually paralysed. When the strength of the secessionist sentiment and the accompanying bloodshed was finally recognised, PNG's political leaders "were in no position to mediate; the extent of grievances and demands had gone beyond their ability to achieve a compromise solution" (Connell, 1991:74). Bougainville's 30 year push for independence was becoming a reality, and with it the fragmentation which PNG had long feared.

The Bougainville revolution raises questions about the political disintegration of PNG's young nationhood. With the post-war trend of "countries splitting apart along national lines" (Fukuyama, 1992:275), PNG, with its 700 'traditional nations', is particularly susceptible. Should Bougainville's political separation become a reality, other regions of PNG may well follow the example and further strain the country's already tenuous hold on unity. Such an argument is proposed by Ashton (1990:13) who observes that a possible "consequence of the Bougainville crisis is the impetus it gives to other secessionist movements." In the light of PNG's federal system of government (refer Chapter 4), affording NSP special conditions may result in claims for similar treatment from other disaffected provinces.

Disregard for the rule of law has long characterised PNG life and politics (Dorney, 1990). May (1990:57) believes the Bougainville crisis is an extension of this national characteristic:

...the mobilization of disgruntled elements among the Panguna landowners ... is to some extent a ripple effect from the more general breakdown of law and order and challenge to the authority of the state.

There is concern over the potential of the Bougainville experience to exacerbate PNG's lawlessness. The example set by the BRA's early repulsion of the security forces and the government's ongoing inability to solve the crisis can only serve as an example to other groups who may feel similarly aggrieved. Thus the cycle continues.

Although the excesses and human rights violations of the PNGDF on Bougainville provoked world-wide rebuke, the national government showed little real concern for the human dimension of the war. While Port Moresby assured Australia in 1990 that it had "undertaken a number of investigations" into the matter (Evans, 1990b:806–807), Amnesty International reports otherwise:

Member States of the United Nations (UN) ... have passed two resolutions since 1992 expressing concern about reports of human rights violations and urging the government of PNG to permit fact-finding delegations to visit the island. To date these resolutions have not been acted upon (1993:2).

This is not surprising, as the troops' lack of discipline was largely a response to the Cabinet's decision to virtually exempt the military from governmental control; a policy which, according to May (1990:58), it was willing to extend to other areas:

...the notice of gazettal which authorized the use of the PNGDF to support 'law and order' operations in North Solomons, places no limitations, either of time or place, on the use of troops, and the minister responsible for the state of emergency on Bougainville appears to have spoken enthusiastically about employing the army, once Bougainville was dealt with, to clean up Morobe and the highlands provinces.

PNG's gradual retreat from this stance has generated some promise of settling the problem. Somare (1996) holds that the government is now "doing everything possible to return the [Bougainville] people to a normal life in the villages", and claimed that "both sides want peace". In September 1996, Fr Momis led a delegation to talk with the rebels at which "some understanding was reached", but Somare (1996) warns that a final solution will not be reached unless the national government remains sensitive to Melanesian traditions and shows "unqualified support for Bougainville's four MPs<sup>94</sup>". Within a week of Somare's optimistic words, unidentified gunmen assassinated Bougainville Premier Theodore Miriung (O'Callaghan, 1996b); an act which highlighted how distant sustained peace on Bougainville may be.

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<sup>94</sup> Members of Parliament

The Bougainville crisis has proved a major set-back to PNG's hopes of progressing, or even surviving, as a functional democracy. A stagnant economy, secessionist sentiments, and lawlessness keep foreign investors wary. Governmental instability, the state's lack of control, human rights issues, and the possibility of a recurrence of military intervention in politics leaves the international community sceptical as to whether PNG will, in the short-term at least, take its place as a viable and enduring player on the world stage.

### **Australia**

Resulting from its 50 years as trustee/administrator, its pivotal role in PNG's independence, and in the interests of its own security, Australia was not able to remain aloof from the Bougainville crisis. Canberra's official policy was one of non-intervention, believing that "the Bougainville problem is one for Papua New Guinea [and] Australia can't construct a solution for Bougainville, much less impose one" (Thawley, 1991:7). Behind the rhetoric of detachment however, Australia tacitly supported PNG and its invasion of Bougainville. Whilst PNG did not specifically seek external assistance, the Australian Government was concerned by the BRA's challenge to PNG's constitutional authority and internal unity and pledged all manner of help short of providing combat personnel. Commenting on Australia's attitude, Hurst (1990:34) notes:

Australia regards a unified Papua New Guinea as a vital and believes the Port Moresby Government must be seen to be in effective control of the country and the economy.

The Australian Government, of course, will continue to provide moral, equipment and financial support to assist PNG authorities to bring about a settlement of the Bougainville and other troubles that are disrupting the young nation.

Australia's commitment to PNG materialised in July 1989 when it supplied four army helicopters, assisted with the maintenance of military hardware, provided pre-deployment training for PNG units bound for Bougainville, and substantially increased its defence aid (Evans, 1990a). By December, Canberra was considering military involvement (Metherell, 1989) and in January 1990, Prime Minister Hawke stated that "should there be any deterioration of the situation in Bougainville which put at significant risk Australian lives...we would...move in there to protect those lives" (Hurst, 1990:34-35). Australia was edging towards armed engagement.

Meanwhile, human rights violations by the PNGDF on Bougainville started to receive coverage in the Australian press (Spriggs, 1990). The reporting of the use of Australian helicopters in the 'St Valentine's Day Massacre' heightened

opposition among many Australians to Canberra's involvement (Garrett, 1991), thus Hawke was prompted to raise the matter with Namaliu. Canberra censured Port Moresby over its decision to impose a blockade on Bougainville, but remained remote from the issue except for stating that it would provide Bougainville with humanitarian aid if it was required (Metherell, 1990). Indeed, such aid was required, but Australia chose not to act (Wright, 1990). In January 1990, PNG requested an additional A\$20 million (US\$15.6 million) for each of the next two fiscal years to compensate for the devaluation and inflation occasioned by the Bougainville crisis (Weisman, 1990). Hawke's approval for this was announced on 24 May.

The lifting of the blockade and the signing of the Honiara Declaration was applauded by the Hawke Government (Eccleston, 1991). Responding to questions in the Senate in June 1991 concerning Australia's assistance since that time, the Minister for Foreign Affairs and Trade reported that the government

...was prepared to assist with the re-establishment of telecommunications between Port Moresby and Bougainville and to facilitate contact between non-government organisations and the PNG Government.

We have also helped in the transporting of medical supplies through the use of the Royal Australian Air force and we recently announced, in that respect, a contribution of \$100,000 [US\$85,000] to the Red Cross Appeal (Evans, 1991:330).

Canberra's support for PNG's attempts to solve Bougainville's troubles through military intervention can only have served to reinforce the Bougainvilleans' long-held mistrust of Australians and their policies. By firstly helping to supply the equipment to force them into submission, and then to withhold humanitarian aid until PNG had capitulated must have been interpreted as an indicator of the duplicity of the country which, for decades, had presented itself as Bougainville's patron. From the Bougainvillean perspective, it is difficult to mount an argument against Kabui's August 1990 accusation that Australia was "ignoring Bougainville's right to independence for selfish financial reasons" (cited in Oliver, 1991:250). Yet again, Australian involvement in their affairs seemed to have militated against the islanders.

Notwithstanding, the Bougainville crisis put Australia in an invidious position. PNG would have interpreted refusal of assistance as an abandonment of Australia's responsibilities to national unity under the 1987 Joint Declaration of Principles<sup>95</sup>, and it could not have supported the BRA in its attempt to dispel a

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<sup>95</sup> As outlined in *Australia's Development Cooperation Program with Papua New Guinea*, (1990:2).

government in which the Bougainvilleans had had representative input (Thawley, 1991). To leave the island open to possible aggression from a hostile neighbour would have been reckless (Islam, 1990). Direct support would have increased charges that Australia was "spilling blood for her multinational company" (Griffin, 1990b:78). Although Australia was in a no-win situation however, it cannot be exonerated from its non-involvement in the peace process. As King (1991:28) noted at the time:

Australia has many levers which could open the way to a peace of reconciliation, devolution and reconstruction on Bougainville, above all its \$300m [US\$230 million] economic aid program to PNG. ...current levels of subsidy cannot continue in the light of the paralysis and gross political and governmental corruption which are undermining constitutional order.

Australia's international standing cannot have been enhanced by its seeming indifference to the denial of human rights on Bougainville. Canberra seems to have sent a message that, for Australia, humanitarian policies can be subjugated by foreign policy.

### **CRA/BCL**

Given that the presence of the mine was a central element in pushing Bougainville from contained dissent to open warfare, it is significant that the operation was not mentioned in either the Endeavour Accord or the Honiara Declaration. Politically, BCL's future was too sensitive for the negotiators to address. For its part, the company could do little, as chairman Carruthers explained following the closure of the mine:

There are certain things about what you do in disputations, and the first thing is not to inflame the situation any further. The nature of the disputation is that it is violence against property and people and there is almost nothing the company can do about that except look out for the security of its own people and assets (cited in MacDonald, 1989:34).

Irrespective of the company's prior role on Bougainville, it was now powerless to influence events on the island. With the mine only half-way through its productive life (Connell, 1990a), BCL has had to stand back and watch its 53.6 per cent equity decline in value. And decline it did. Before the May 1989 shut-down, BCL shares traded at around A\$2-70 (US\$2-30); this dropped to A\$1-80 (US\$1-53) in July (Gomez, 1989a:17) and A\$1-50 (US\$1-27) by year's end (Gomez, 1989b:6). In February 1990, BCL shares were worth less than A\$1 (US\$0-78) (*The Australian*, 1990:21).

Panguna's halt in production was immediately reflected in BCL's figures. For the six months ended 30 June 1989, the company reported "profit after tax and before extraordinaries was 37.77 million kina [A\$52 million / US\$44.2 million]

compared with K51.8 million [A\$71.2 million / US\$60.6 million] for the same period last year" (Bromby, 1989:29). At 31 December, BCL posted a K20.6 million (A\$28.3 million / US\$24.1 million) loss for the year against a net profit of K108.6 million (A\$175.4 million / US\$126 million) for 1988 (Gomez, 1990:21). BCL remains a registered company and its shares are still traded on the Australian stock exchange, although it does not engage in any commercial activities. As at December 1999, BCL shares were valued at A\$0-19 (US\$0-12) each.

The 1990 valuation of BCL's property, plant and equipment on the island stood at A\$664.8 million (US\$520 million) (Gluyas, 1990). Its present worth is unknown, and cannot be established until the company gains access to the site (Howarth, 1991c). Those buildings not damaged in the war have been vandalised, motor vehicles and portable equipment were stolen long ago, the decaying effects of the climate have taken their toll, and the jungle is regenerating throughout the area. In 1991 CRA deconsolidated BCL from its group accounts, and in its March annual report "merely listed its investment in BCL at the carrying book value of [A]\$267 million [US\$204.8 million] of the shares owned by CRA" (*The Australian*, 1991:24).

In mid-1989 BCL lodged a A\$20 million (US\$17 million) claim with its insurers for damage to property and lost earnings arising from Panguna's closure in November–December 1988. The underwriters denied liability on the policy's exclusion from indemnifying against "insurrection, rebellion, revolution, civil war, usurped power, or action taken by governmental authority in hindering, combating, or defending against such an occurrence" (Eccleston, 1989:3). The matter was referred to the Victorian Supreme Court, but before the case was heard, BCL's claim had widened to A\$300 million (US\$255 million) to cover losses between October 1988 and October 1989 (*The Australian*, 1990a). An out-of-court settlement of A\$102.5 million (US\$80 million) was reached in February 1990 (McIlwaine, 1990), but in April the insurers gave 90 days notice of intent to withdraw cover which left "shareholders totally exposed to cover the costs of repairs to any company property on the island" (Howarth, 1990:18).

Despite early considerations of abandoning Bougainville (Knuckey, 1990), BCL maintains that it intends to re-open its mine, but "a recommencement of operations...would require the re-establishment of political stability on the island" (Howarth, 1991a:17). To date, this prerequisite has not eventuated. Restoring production at Panguna is estimated at US\$450 million (Callick, 1994).



The PNG Government has been ambivalent over CRA retaining ownership of the mine. While Foreign Affairs Minister Somare believed the sale of the mine would "soften the BRA's demand for secession" (Oliver, 1991:264), Namaliu claimed "it would be the Government's 'obvious preference' to keep CRA as the major shareholder in BCL" (*The Australian*, 1991:24). The company has advised Port Moresby that it would consider selling its interest in Panguna "if it became obvious that CRA's continued presence was the only factor preventing a peaceful resolution of the political crisis" (Howarth, 1991b:27). Thus, while its assets on Bougainville deteriorate daily, CRA waits for politicians to resolve the crisis. In the meantime, the company "can only be a bystander" (Carruthers, cited in Oliver, 1991:264).

The detrimental effects of mining on Bougainville have been protracted and extensive. The Bougainvilleans bear the physical and psychological scars of war, their land and waterways are degraded, and disease and malnutrition permeates their dislocated communities. PNG's economy has regressed and the country's hopes of becoming a unified nation have collapsed. Australia's international integrity has suffered, and its taxpayers have contributed to the cost of remote political and commercial misjudgment. Finally, the company has suffered substantial financial losses and sustained considerable damage to its image.

## **DEVELOPMENTS SINCE 1992**

In July 1993 the Pan-Bougainville Peace Conference Planning Group met in Honiara to resume negotiations. Various resolutions were passed, and over the next two years "slow but steady progress towards the restoration of peace and government services [was] achieved" (Davis, 1995:94). In 1995 fighting rekindled when the BRA shot two soldiers, assaulted a police officer and attacked government facilities. Curfews were re-introduced, civilian aviation was suspended, and schools and government offices were closed. Davis (1995:94) explains that the upsurge in BRA activities was caused, in part, by

...the unwillingness of Port Moresby to allow the transitional government to negotiate directly with the BRA and its political wing, the Bougainville Interim Government. But at the end of [August] Prime Minister Julius Chan agreed to allow them to meet...

As a result of Chan's compromise, rebel leaders and members of the transitional government met in Cairns on 16 September 1995, but to little avail (Murphy, 1995). On 10 November the escalating violence moved Chan to cancel further talks scheduled for December. Of his decision, the PNG Prime Minister said

There will be no further talks until and unless I am satisfied all participants to any such meeting in future strictly adhere to the basic ground rules laid down to guide their deliberations. [The] recent upsurge in rebel activity before peace talks planned for Australia next month [run] contrary to the spirit of achieving true peace (cited in Hawes, 1995:5).

In early 1996 Chan again mobilised forces on Bougainville. After the army was repelled, the Prime Minister adopted a softer line and the PNGDF began winding back its activities on the island in July. However "fatal skirmishes between the country's security forces, the State-backed 'resistance' militia and the Bougainville rebels...continued" (O'Callaghan, 1996a:32). In a return to Bougainville's matrilineal traditions and possibly due to the failure of men to end the war, the island's women initiated a reconciliation program. In August 1996, under the auspices of various churches, they commenced a series of conferences to plan a peace formula (ABC Radio, 13 August 1996).

Progress towards a resolution of the crisis was further impeded by the murder of Premier Miriung on 12 October 1996. Both the BRA and PNGDF denied implication, and blamed each other for the killing. Describing the assassination as "an act of madness" (O'Callaghan, 1996c:11), Chan initiated an independent inquiry which found the PNGDF responsible but the government took no disciplinary action against those involved (Callick, 1996). Possibly in response to PNG's indifference to the inquiry's findings, the BRA murdered 9 Bougainvillian villagers in November 1996 and called on Australia to cease its military support of PNG (SBS TV, 16 December, 1996).

In February 1997 the Australian media revealed that the PNG government had contracted Sandline International at a cost of US\$36 million to strike against identified Bougainville rebel leaders (Woodley, 1997). Rebutting international criticism of the use of mercenaries, Chan claimed that Sandline troops were engaged solely as advisers to the PNGDF and vowed that they would not participate in combat on Bougainville (O'Callaghan & Greenlees, 1997). When Ona responded to the presence of the mercenaries by ordering the BRA to 'shoot on sight' any foreigners not sanctioned by his interim government, Australia and USA urged their citizens (mostly aid workers) to leave Bougainville.

Opposed to the engagement of hired soldiers on Bougainville, on March 17 the Commander of the PNGDF, Brigadier-General Jerry Singirok, confined his troops to barracks, placed the Sandline personnel under house arrest, and demanded the Prime Minister's resignation. When Chan dismissed Singirok,

describing his actions as “gross insurrection bordering on treason” (cited in O’Callaghan & Gordon, 1997:1), Singirok released details of the Sandline contract which authorised “a ‘strike force’ of 70 mercenaries to ‘conduct offensive operations’ aimed at securing the giant Bougainville copper mine and ‘rendering the BRA militarily ineffective’” (Scott, O’Callaghan & Greenlees, 1997:1)<sup>96</sup>. Public protests against the government’s misrepresentations followed, forcing Chan to stand down to John Giheno on March 26. Chan re-gained the prime ministership on June 2, but was replaced by Bill Skate at the national election some two weeks later. Skate subsequently announced an inquiry into the ‘Sandline Affair’<sup>97</sup>.

Because the plan to use mercenaries had been aborted, PNG paid Sandline only one half of the agreed sum. Sandline subsequently took legal action, and in October 1998 was awarded the outstanding US\$18 million plus US\$7 million costs. When Port Moresby refused to pay the debt, the bank accounts of PNG’s mission to the European Union in Brussels were frozen and three other European missions were forced to clear their accounts of operating funds. Faced with the possibility of having its embassies closed, in February 1999 PNG announced that it would appeal the international ruling in the Queensland (Australia) courts (O’Callaghan, 1999a).

An elemental factor in Chan’s use of mercenaries to regain control of Bougainville was his government’s plan to buy the Panguna mine. In January 1997, Port Moresby commissioned Hong Kong brokers Jardine Fleming “to secretly approach RTZ-CRA ... with a view to purchasing the company’s 53.6 per cent shareholding in Bougainville Copper Limited” (O’Callaghan & Greenlees, 1997:1). No discussions with RTZ-CRA eventuated from the broker’s advances, however chairman David Karpin noted that the Sandline contract had “added significant complexity to the already difficult situation” and “it has not advanced any potential restart of the mining operation” (cited in Sproull, 1997:26).

Sponsored by Australia and New Zealand, new rounds of negotiations were held at Burnham Camp (near Christchurch, NZ) in July and September 1997. These resulted in the signing of an interim truce agreement on October 10 in which the parties agreed to “immediate measures to stop fighting pending a formal meeting

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<sup>96</sup> Sandline International is a subsidiary of British-registered Executive Outcomes, a mercenary-staffed private army, which has been involved in the civil wars of Sierra Leone and Angola.

<sup>97</sup> At the time of writing, the findings of the inquiry had not been released.

of leaders desirably by January 31, 1998" (ABC TV, 10 October, 1997). The 'Burnham Truce' renewed interest in BCL stock; immediately 500,000 shares were traded and prices firmed 2.5 cents to A\$0-49 (US\$0-35).

The planned meeting of the leaders was convened at Lincoln University (Christchurch, NZ) on January 19, 1998. Delegates included NZ Prime Minister Shipley, PNG Prime Minister Skate, Solomon Islands Prime Minister Ulufa'alu, regional foreign ministers, and 150 Bougainvilleans

representing both pro- and anti-PNG factions including Joseph Kabui, president of the Bougainville Interim Government; Sam Kauona, general of the Bougainville revolutionary Army; and Gerard Sinato, premier of the Bougainville Transitional Government. The chief negotiator for the rebels is Martin Miriori, who represented the BRA in ... Honiara, but fled two years ago and now lives under refugee status in The Hague (Dunbar, 1998a:14).

On January 23 "the leaders agreed to a 'permanent and irrevocable ceasefire', to begin after April 30" (Dunbar, 1998b:12). Although the peace plan had the support of most key rebel leaders, Francis Ona convened a meeting at Pakia (central Bougainville) in April at which he called for a postponement of the ceasefire, and declared that he still intended to be the leader of an independent Bougainville (ABC TV, 21 April, 1998).

Accompanied by a symbolic laying down of arms, the ceasefire was signed at Arawa on April 30 before a gathering of 2000 people. Following the signing, Kauona told the crowd in pidgin "Today, mipela finisim war bilong Bougainville (Today, the war in Bougainville has ended)" (Garran, 1998:4). Immediately following the declaration of peace, Ona (who was not present at the ceremony) issued orders to the secessionist rebels to shoot on sight any of the international peace keeping troops stationed on the island. (Since the commencement of the peace process in 1997, a contingent of soldiers from NZ, Australia, Fiji and Vanuatu have been based on Bougainville to monitor the cease-fire). Joseph Kabui responded by denouncing Ona's call, stating that "Francis Ona has left us no choice but to move a vote of no confidence" (ABC Radio, 4 May, 1998).

In October 1999, PNG offered to grant autonomy to Bougainville, ceding all its authority with the exception of powers concerning defence, foreign affairs and police. In extending the proposal, Michael Somare (PNG Foreign Minister and Minister for Bougainville Affairs at that time) stated that "...I want to see that the year 2000 will bring a completely new Bougainville" (cited in O'Callaghan, 1999b:2). Simultaneously, Australia announced that it would extend a financial

support facility of US\$80 million (A\$121 million) to PNG in an effort to improve the value of the Kina and retire some of the country's debt.

## **CHAPTER SUMMARY**

After decades of foreign domination, the previously fragmented Bougainvillean communities joined forces to embark on a campaign of sabotage against the Panguna mine. Troops dispatched by PNG, unable to subdue the militants, inflamed the situation to the point where the protests against the mine became a rebellion against the authority of the state. The Bougainvillean desire for independence had found an outlet and, despite negotiations brokered by governments, churches and community bodies, secession had become a technical, if not legal, reality and the Panguna mine was closed. The costs - human, economic and political - have been high. At the time of writing, Bougainville has been peaceful for two years, and autonomy seems imminent. Questions as to whether the rebellion would have occurred had mining not commenced on the island can only be speculative, however because the Panguna operation sparked the tragedy, consideration must be given to the implications of establishing and managing MNEs in undeveloped states. This matter is pursued in subsequent chapters.

## **CHAPTER 7**

### **ANALYSIS OF THE CASE STUDY**

#### **OBJECTIVES OF THE CHAPTER**

The case narrative (Chapters 4, 5 and 6) and respondent interviews (Appendix V) served two aims; the first was to examine and document the history and consequences of BCL's activities on Bougainville, and the second was to determine the manner in which the company was managed. This chapter analyses this information in order to establish the framework in which the research questions are considered in Chapter 8. The chapter commences with an overview of the fundamental features of BCL's operations and the context in which they occurred. This is followed by an examination of the impact which significant external elements had on the management and organisation of the mine. The internal environment of BCL is then explored in order to establish how the company's endogenous characteristics affected its operations. The results of these investigations form the context within which the management of BCL is analysed, using NUD\*IST software to interpret the interview data. Finally, the findings of the chapter are reviewed in the light of management and organisation theories which assist in explaining the events and outcomes of BCL's operation on Bougainville.

#### **THE CONTEXTUAL CHARACTERISTICS OF BOUGAINVILLE COPPER LIMITED**

This section examines the general conditions under which the Panguna mine was established and operated. Although many of the issues noted herein predate the mine or concern matters over which BCL<sup>98</sup> management had virtually no control, they influenced the relationship between the company and its hosts, and had a profound impact on the fortunes of the mine. In essence, this discussion provides an overview of the contextual background against which the environmental analyses in subsequent sections need to be considered.

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<sup>98</sup> As noted in Chapter 5, the mine operated under several companies between 1963 and 1989; Bougainville Mining Ltd, Bougainville Copper Pty Ltd, CRAE, and BCL. For the sake of clarity, the mine's operators are referred to as BCL in Chapters 7 and 8.

## **The Decision to Mine Bougainville's Resources**

Whereas manufacturers and service providers base their locational decisions on factors such as potential and existing markets, the costs and availability of labour, competition, and local infrastructures (Caves, 1982; Porter, 1990), resource-based industries do not have the advantage of choice. Organisations involved in the extraction of minerals and oil are forced to establish their operations at the source of the natural reserves they seek. BCL therefore, did not select Bougainville as a site for its mine, rather the copper and gold deposits in the Kawerong Valley made the region a potential mine site. Accordingly, the essential question for the company in the early 1960s was not a matter of whether Bougainville was an appropriate setting in which to develop a mining and industrial complex, rather it was a question of whether it was viable to mine the ore deposits in the Panguna district.

The viability of the venture turned on three factors: the potential of the lode in terms of quality and volume, the availability of technology to extract and process the ore in such a remote and undeveloped setting, and the cooperation of the host country. Each of these variables proved positive. Within a few years, the commercial and technical feasibility of the mine was confirmed, and PNG had offered financial and legislative incentives to encourage the company to proceed. The following examination of the host country investigates the motivation behind PNG's support for the establishment of the Panguna project.

## **The Host Country**

Using the various indicators of economic development noted in Chapter 2, PNG may be classified as a less developed country<sup>99</sup>. In recognition of PNG's economic condition, Australia had been supporting the country with substantial aid programs since the late 1940s<sup>100</sup>. By the 1960s, Australia was taking

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<sup>99</sup> In the mid 1960s PNG experienced high population growth, technological and regional dualism, high rates of illiteracy, deficient sanitary and health facilities, inadequate infrastructure and political instability (*Australia's Development Cooperation Program with Papua New Guinea*, 1989; *Survey of Major Western Pacific Economies*, 1984; *Third World Economic Handbook*, 1989). Contemporary information shows that economic progress remains slow; PNG is a 'lower-middle' LDC with a per capita GNP of A\$1,722 and is still reliant on resource exports (*World Development Report*, 1997). Lawson (1993:64) describes PNG as "a classic example of an ex-colonial 'weak state' [having a] diverse population, [which was] brought together through the process of colonisation (and decolonisation), and which remains poorly integrated."

<sup>100</sup> Although PNG's economic circumstances were the main reason for Australia's aid programs, Canberra's motivation was not purely economic. Australia had obligations to PNG under the 1946 UN trustee arrangements, and there was a national consciousness of the debt Australia owed to the people of PNG for their sacrifices in repelling the Japanese advance during WWII (Fry, 1991; Medcalf, 1986; Wolfers, 1972).

tentative steps to shift the focus of its assistance from direct aid to one of promoting self-sustaining economic growth. This change in Australian policy was motivated, to a large degree, by a realisation that PNG was gradually moving towards independence. The founding of the mine on Bougainville was seen by both PNG and Australia as a fundamental ingredient of the country's economic development and its eventual progress to representative democracy (Oliver, 1991).

By the mid 1970s, the Panguna operation had exceeded the expectations of Port Moresby, Canberra and BCL. The profitability of the venture was much higher than estimated<sup>101</sup>, and the mine was PNG's largest generator of export income, largest contributor to government revenue, largest private employer, and largest non-government developer of human capital. As hoped, the success of the mine was being reflected throughout the national economy; other major resource projects followed (Ok Tedi, Porgera, Misima, Lihir), service industries were expanding, the infrastructure improved, and the economic growth rate, while not extreme, exceeded that in most LDCs<sup>102</sup>. The nationwide developments afforded by Panguna's presence in the PNG economy were reflected in the political arena; within three years of the mine commencing production, PNG had become a sovereign state.

Seemingly, the logic of establishing operations in LDCs (as argued in Chapter 2) had been vindicated by the Bougainville venture. The company was operating profitably, the host country was reaping economic and social benefits, and the 'parent' country now considered its protectorate to be developed sufficiently for independence. The enthusiasm of BCL, PNG and Australia for the giant copper mine was not universally shared by those most affected by its presence, however.

### **The Host Society**

Although Bougainville enjoyed the nation's highest concentration of the benefits from the mine (infrastructure improvements, markets for indigenous

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<sup>101</sup> As noted in Chapter 5, the huge profits during the early years were largely the result of an unprecedented rise in world copper prices. In 1975, prices dropped and have not since returned to the 1972–1974 levels in real terms.

<sup>102</sup> In the period 1966–1970 (that is, the developmental and establishment period of the mine), PNG's annual economic growth rate averaged 15 per cent (Martin, 1974), but this stabilised to approximately 2.5 per cent per annum from 1975 to 1994 (*Australia's Development Cooperation Program with Papua New Guinea*, 1989; *World Development Report*, 1997).



goods and services, employment opportunities, and expanded health and education facilities), not all Bougainvilleans welcomed the project and the 'progress' which accompanied it. Unlike PNG, which regarded the operation as a conduit to national development, the islanders' views were diverse. While some were receptive, a significant portion of the population resented the physical, economic, social and ecological intrusion of the Panguna mine.

The contrasting perspectives held by PNG and a significant segment of Bougainville's indigenes was the most crucial contextual feature confronting BCL, as it effectively meant that those who managed the mine had two hosts with which to deal; *the host country* and *the host society*. In political and legal terms, ultimate authority over the operation rested with Port Moresby, as PNG was the host country. In practical terms however, the Bougainvilleans constituted the host society and, as history revealed, ultimate power over the mine rested with them. Thus, management were placed in the invidious position of needing to satisfy the demands of two groups who held opposing views on nearly every issue significant to the company's performance.

The Bougainvilleans' suspicion of the mine was, to a large degree, a reflection of their collective psyche. The locals harbour an ingrained sense of insularity which originates from a combination of geographic, social and historical factors. Firstly, the island's remoteness and lack of development imbues an almost palpable sense of isolation. For many islanders, this seclusion is welcomed. Secondly, as a result of the political manipulation of foreign powers, the population retains an enduring enmity towards outsiders. In less than 100 years, and without consulting the Bougainvilleans, the island has been annexed by Britain, handed to Germany, separated from the Solomon Islands, transferred to Australia, occupied by the Japanese, returned to Australia and then incorporated into PNG. Thirdly, the people believe that they have been neglected, and at times abused, by each of the countries which have governed their land. Finally, the Bougainvilleans consider themselves a race apart from the rest of the world. In particular, they feel no affiliation with the 'redskins' of PNG, whom they regard as an inferior people.

Over the years, the coalescence of the above influences has given rise to various organisations which have politicised Bougainville's ethnic and historical idiosyncrasies into a concerted effort for separatism. Apart from the rebellion in 1988 which closed the mine, secession was attempted in 1962, 1968 and 1975. These expressions of discontent with foreign governance

provide clear evidence of the depth of the Bougainvilleans' isolationist sentiments, and of their desire to translate those sentiments into political sovereignty.

The tense relationship between Bougainville and PNG was not the only division which confronted BCL's management, however. Although the above portrays the Bougainvilleans as a people united by their unique ethnicity and a common desire for political separatism, it veils the fragmentation of Bougainvillean society. The island's population is divided into hundreds of distinct communities, each with a peculiar set of customs and its own sense of identity. The social arrangements within and between the communities are flexible, often unstable, and sporadically hostile, with each succeeding generation taking its own approach to governance and inter-tribal relationships. The diversity and fluidity of Bougainvillean society has generally precluded the establishment of mutually accepted cultural institutions, and therefore the population has not developed the cohesive identity generally associated with 'nationhood'.

The foregoing illustrates the unique and extremely complex operating context into which the Panguna mine was introduced. Whereas the establishment of operations beyond the home country requires all MNEs to account for the prevailing circumstances of their host environment, BCL effectively had two distinct host environments; PNG and Bougainville. This situation was further complicated by the diverse, unpredictable and discontinuous nature of Bougainvillean society. The following section explores this situation in depth by analysing the legal, cultural, economic and political dimensions which impacted on the mine's operations.

## **EXAMINATION OF THE EXTERNAL ENVIRONMENT OF BOUGAINVILLE COPPER LIMITED**

The duality of the mine's host environment had implications for each of the external elements identified in Chapter 2. The following examines these contextual factors individually and considers their influence on the operation and management of the Panguna mine.

### **The Legal Environment**

Because PNG's legislation and common law was imported from Australia and thus followed the principles of the British legal system, it was alien to

Bougainvillean traditions, values and institutions. Many facets of the law, especially those which regulated the use of Bougainvillean land, were incomprehensible to the villagers and often appeared to be unjust. Further, the long held resentment of foreign rule was fuelled by Bougainville's unilateral incorporation into PNG and Port Moresby's lack of consultation in the introduction and enforcement of its laws. As the senior managers of BCL were accustomed to Western concepts of law, they were able to accept its logic and necessity, however they remained acutely aware of its unsuitability to the situation on Bougainville. Both the indigenes and BCL management regularly petitioned the central government for change, but with little success. The following summarises the major legal issues which simultaneously provoked Bougainvillean discontent and frustrated the mine's managers.

- The democratic convention of British law is based on the assumption that the government and judiciary act on behalf, and in the interests, of the country's entire population. As a result, the legal matters concerning the establishment and running of the mine were negotiated between the company and the national government without any direct input from the Bougainvilleans. This exclusion deeply aggrieved the Bougainvilleans. Although BCL management recognised the locals' concern over this situation and attempted to address the issue in various rounds of negotiations, the executives secured few concessions from the government.
- The Bougainvilleans had few lawful avenues for redress as the statutes which regulated mining activities contained no provisions for requests or complaints from local communities.
- In the British tradition, PNG law vests ownership of mineral resources in the State. This effectively meant that the Bougainvilleans retained possession of the land, but had no control over its use. As mining changes the natural environment, and in some instances renders permanent damage, numerous communities became owners of land which was useless to their economic and/or psychological needs. This situation was exacerbated by the legislation's silence on land rehabilitation.
- Of the substantial royalties which BCL paid to Port Moresby, only a small percentage was returned to those landowners who were affected by the mine, with the bulk of the revenue being retained by the national government for the development of PNG as a whole. Attempts by both the Bougainvilleans and the company's executives to increase the locals' share was strongly resisted by the PNG parliament.

- The law did not specify any standards of environmental protection, rather it provided for the parliament to determine and enforce any measures it saw fit. The government did not exercise its authority in this regard, and made no demands on the mine concerning ecological standards or performance.

The laws governing the mine, in particular the *Mining (Bougainville Copper Agreement) Ordinance 1967* and subsequent amendments, were a clear reflection of Port Moresby's desire to secure and sustain the Bougainville copper project for PNG. While few restrictions were placed on the company's cost and profit activities, the government levied substantial imposts on BCL<sup>103</sup>. Furthermore, legislation imposed offset obligations on BCL. These demands, which primarily related to the development of Bougainville's infrastructure, were accepted by management, and the company consistently and voluntarily exceeded the legislated requirements.

Although the unilateral decision by the national government in 1974 to reduce the terms of the company's concessions was detrimental to the mine's profitability and was legally questionable, BCL management did not challenge the government on the issue. Parliament's revision of the agreement was widely regarded as a reaction to political pressure from those who believed state assistance was unfair and unjustified, given the mine's large profits in the early years.

Because the mine's employment practices were not subject to legislation, management was responsible for all facets of BCL's employee relations program. In order to avoid the creation of excessive economic dualism, a differentiated remuneration policy was devised which distinguished between PNG citizens and expatriates. Despite the ostensible inequity of the system, this practice was acceptable to both the BMWU and the government, and there is no evidence of employee dissatisfaction over pay related issues. The proportion of PNG workers to foreigners was also determined by management, as was the ratio of Bougainvillean to Niuginian employees. Concerning the former, management made a conscious effort to hire as many PNG nationals as practicable and, to this end, embarked on indigenous training programs unprecedented in the country's commercial history. Concerning the latter,

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<sup>103</sup> Following the 1974 renegotiation of the 1967 agreement, BCL considered the quantum of these imposts to be excessive, however a past executive reported in interview that "the 1974 agreement was not, in retrospect, all that unreasonable from both sides...the terms were fairly similar to other like projects around the world" (Personal communication, 1998).

employing workers from other provinces of PNG caused racial tensions because the Bougainvilleans objected to the presence of 'redskins' on the island. This issue was difficult to resolve; management believed that excluding non-Bougainvillean nationals would have been discriminatory, and the government was bound by section 52 of the Constitution which guarantees PNG citizens freedom of movement throughout the country.

The legal framework which PNG established for the Panguna venture demonstrates the government's consciousness of its need to stimulate economic and social development, and its awareness of the important role which foreign investment could play in achieving this objective. Overall, the laws appear to have been pitched at striking a balance between the country's structural adjustment imperatives and the operational and economic needs of BCL. It could be argued however, that PNG's *laissez-faire* approach to employee relations left its citizens open to exploitation by corporations less scrupulous than BCL.

In simultaneously accommodating the requirements of both the nation and the company however, a legal climate was produced which paid scant regard to those whose lives were most affected by the mine. While Port Moresby remained apathetic to this issue, management was aware of the dangers inherent in many provisions of the law, especially its potential to harm the relationship between the company and the local people. BCL personnel attempted to explain the legislation to the Bougainvilleans, but clarifying and justifying seemingly incomprehensible laws to a people already suspicious of the mine's presence and motives proved difficult in the extreme, and only served to affirm their perception that the government was indifferent to their welfare. With PNG not prepared to address, or even recognise, the implications of its laws concerning Bougainvillean rights, the environment, and the distribution of Panguna's economic benefits, local pressure for change was inevitable.

### **The Cultural Environment**

PNG is exemplary of the cultural heterogeneity found in many LDCs. Despite its status as a nation, PNG is so segmented by language, local ties and insular concerns that it remains one of the least unified countries on the globe. On Bougainville, this cultural division is magnified because parochial sentiments operate at two levels. At the macro level, Bougainvilleans consider themselves to be a distinct people with no affiliations to PNG or any other ethnic group or

nation. At the micro level, each community operates as a discrete entity having little contact with, or interest in, neighbouring villages. The cultural isolation of both the general population and of individual groups proved to be a significant complication in the management of the Panguna mine.

At the macro level, Bougainvillean antipathy towards PNG resulted in the islanders' rejection of the authority of the national legal system. The strongest resentment centred on those laws which were construed as threatening the basic tenets of Bougainvillean culture, in particular self governance and land usage. BCL's stringent compliance with the law was interpreted by many villagers as a display of management's support for PNG, and thus anti-Bougainvillean. This situation made it difficult for management to maintain positive public relations, or to conduct negotiations with locals in an atmosphere of good faith. Matters were exacerbated by Niuginians migrating to Bougainville in search of work. 'Redskins' who gained employment at the mine were seen as taking jobs, and hence income, from the locals. Those who were not hired by BCL often did not return to PNG and tended to establish settlements without the permission of relevant landowners, and were accused of being responsible for Bougainville's increasing social troubles.

At the micro level, the mine's presence magnified customary divisions between Bougainvillean communities, especially over issues arising from the rapid increase in monetisation. While many locals eschewed money, preferring the traditional values associated with subsistence living, others were willing to embrace a commercial economy. Frictions developed among and between various 'monied' groups as jealousies emerged over the quantum and distribution of occupation fees and compensation for loss. Because occupation fees were calculated on land area and did not account for the number of inhabitants thereon, benefits per capita varied widely. This was seen as inequitable by villagers living within the mining leases, resulting in animosity between each other and towards the company. Groups living outside the mining leases felt aggrieved because they received no direct benefit from the mine. Further complications over income allocation arose within individual clans when some leaders, in their role of custodians of community wealth, refused to share the income with all members.

Although the Bougainvilleans' custom of living a detached and individual existence had been marginally eroded by their experiences in WWII and the events of the ensuing 20 years, the establishment of the mine accelerated the

process. Economic development, industrialisation and a burgeoning infrastructure brought the islanders into close contact with each other and with non-Bougainvilleans for a sustained period. Increasing interaction between local communities, together with the economic divisions noted above, kindled latent rivalries between villages. At the same time, frictions were emerging in some communities as younger members believed that their elders' acceptance of development was eroding the traditional ways of Bougainvillean life.

Concurrent with the deepening divisions between and within Bougainvillean communities however, was a growing awareness of the cultural similarities which bound them. Paramount among these was their universal dislike of outsiders and a common spiritual attachment to the land. As contact with non-Bougainvilleans increased, the islanders' historical antagonism towards foreigners, particularly Niuginians, intensified. This behaviour reflects Hofstede's (1995) observation that LDC cultures typically display large power distances and low individualism which results in ethnic allegiances being placed above nationalistic sentiment and an unwillingness to accept outside involvement in their economic and social arrangements.

Changes to the natural environment which accompanied the mine also had a significant impact on traditional Bougainvillean culture. Believing that land sustains their spiritual life as well as their physical life, it was almost impossible for the people to be reconciled to any disturbance of the land. The social ramifications of damage to the land were various. Firstly, dislocation from ancestral lands resulted in a form of emotional alienation; the essential fibre of individual and community life was disrupted. Secondly, because much of the damage to the land was permanent or would take generations to revive, the continuity of cultural tradition was being eroded. Thirdly, as land has a sacred quality, any interference with it was seen as an act of sacrilege. Fourthly, the link between land and productivity provided a sense of economic security which now appeared to be disintegrating; the growing cash economy meant that survival no longer resulted from the use of land, but from the destruction of its productive capacity.

The cultural breakdown occasioned by the rapid changes on the island, although intangible, was a tragedy for the Bougainvilleans, and a problem to which there seemed no solution. While a more sensitive approach by PNG may have ameliorated some of the difficulties, it is unlikely that a great deal could have been achieved by legislation. BCL instigated a Village Relations Program

in order to plan for and control the negative social impact of the mine, but this was largely ineffective as it was relied on the Bougainvilleans taking a consensual approach to community liaison. The villagers themselves found it difficult to identify the underlying causes of the changes they were experiencing, much less propose a remedy for them.

## **The Economic Environment**

The economic environment in which BCL operated may be considered from two perspectives; the national PNG economy and the Bougainville economy, both of which caused difficulties for the mine's management.

### *The National PNG Economic Environment*

As noted previously, PNG was (and remains) an LDC with an economic base dependent upon the export of raw materials. From its inception, the Panguna mine was the most significant player in that economy, and therefore the management of BCL was subjected to various political demands which impinged on their actions and decisions. This situation also affected the objectivity of the central government in its dealings with BCL.

With the country's aspirations for economic and social development relying heavily on the success of the Bougainville copper venture, the PNG government was exposed to a number of difficulties. Most importantly, it had little choice but to support BCL, irrespective of the ramifications. This is evident in areas such as the lack of legislated ecological protection and the government's use of military force during the revolution. With attempts to restructure the national economy so heavily dependent upon revenue generated by Panguna, it was inevitable that the Bougainvillean share of this money would be minimal. These issues clearly involved an inherent risk of Port Moresby further alienating the Bougainvilleans and straining tenuous national-provincial relationships. Further, with such a narrow revenue base, PNG's economic agenda was, in practical terms, directly related to the sum of money which the government could extract from BCL. This is highlighted by the terms of the 1974 agreement, which substantially increased national revenue by diminishing the company's concessions<sup>104</sup>.

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<sup>104</sup> The unilateral amendment of the 1974 agreement illustrates Port Moresby's propensity to make significant decisions without consulting those who would be affected. The government was equally cavalier in its treatment of BCL as it was with the Bougainvillean people.



From BCL's perspective, its pivotal role in the PNG economy exposed it to sustained accusations of using its position to manipulate political, economic and social agendas for its own ends. In particular, many Bougainvilleans interpreted management's adherence to the rule of law as siding with the 'redskins' against the locals in the interests of profit. Others variously charged the company with intentionally fostering Bougainville's dependency on the mine, ignoring ecological issues in order to save expenses, deliberately avoiding paying reasonable occupation fees and damage compensation, misdirecting the revenues of its philanthropic agencies, and exploiting local businesses. The motivations behind BCL's social and economic development programs were also brought into question. With the possible exception of the delay in constructing a tailings disposal pipeline, these accusations appear to be unfounded as this research exposed no evidence to support arguments that the company ever attempted to exercise its potential economic power to gain advantage.

#### *The Local Economic Environment*

The distribution of the economic benefits arising from the mine was an ongoing cause of discontent among the Bougainvilleans. Three issues were of major concern to the islanders. Firstly, although BCL made a substantial contribution to government revenue, returns to Bougainville in the form of development projects and services remained small in comparison with the rest of PNG. Secondly, as the vast majority BCL shares were held by foreign interests, there was a widespread perception that the mine existed primarily for the benefit of overseas investors. Thirdly, the Bougainvillean share of mine generated wealth was unevenly distributed between (i) the various landowners, (ii) landowners and other people on the island, and (iii) Bougainvillean and non-Bougainvillean firms and contractors associated with the mine. As management was sympathetic to these grievances, BCL petitioned Port Moresby on several occasions to change the formulae used in calculating and allocating the revenue being returned to the people, but to no avail.

Because environmental damage is an inevitable consequence of any large-scale mining project, the Panguna operation caused substantial physical damage in its immediate area. Some of the ecological harm will dissipate over time, however some is irreversible. The actual extent and permanency of much of the environmental disturbance is unknown as reports generated in the 1970s and 1980s were conflicting and inconclusive, and no studies have been undertaken since hostilities commenced. Evidence from this research indicates that BCL took

reasonable environmental precautions within the limitations of contemporary thought and understanding, the island's geographic and seismic features, and available technology. While this claim is open to challenge, it is significant that all initiatives to mitigate the environmental impact of the mine were instigated voluntarily by the company in the absence of any legal prescriptions. Although the company's expenditure on environmental protection was substantial and ongoing, the actual sums involved do not appear to be recorded in public documents. The expense of recompensing the Bougainvilleans for damage to the environment totalled K21 million (US\$18 million) (Griffin, 1990b).

BCL's employment policies and commitment to educating its workforce made - and continues to make - a significant contribution to PNG's stock in human capital. In supporting the technical and academic development of indigenous employees, management was aware a percentage of its skilled workers would be lost to other employers (including the government), but this was viewed as a form of social and economic return to its host country.

As noted earlier, one of the anticipated spin-offs from the copper mine was a growth in services industries throughout PNG. On Bougainville, BCL took deliberate steps to foster local businesses and help the communities take advantage of the business opportunities presented by the mine's activities. These efforts appear to have been moderately successful, but did not achieve the expectations of management due to the local work ethic and political problems in the Bougainville Development Corporation.

As development on Bougainville was negligible until the 1960s, virtually all the island's infrastructure was constructed by BCL. Although much of this was established to support the mine and its ancillary operations, surrounding communities gained the social and economic benefits of sealed roads, reliable water supplies, medical services, educational opportunities, electricity, and so forth. The company also introduced various social and recreational institutions which were available to all people on the island.

It appears therefore, that the macroeconomic climate with which the mine's management had to deal was typical of many LDCs. As PNG was dependent almost entirely on its factor endowments, it relied heavily on the Panguna mine to support its development program. While this situation should have fostered a close working relationship between BCL management and the national government, the association between the two was often a source of political

tension, criticism and misunderstanding which persisted for the life of the mine. Of the various local economic issues, indigenous dissatisfaction with the payment of compensation and occupation fees remained the most significant challenge to management. This problem was a factor over which the company had little control, and one which was never resolved. Concerning the economic and social development of Bougainville, BCL appears to have been exemplary in its efforts to meet the needs of its host society. The question of environmental protection remains clouded; while the company voluntarily spent large sums on damage reduction, it is possible that more might have been done.

### **The Political Environment**

The volatile and fragmented political environment which characterises many LDCs is clearly evident in PNG. Western concepts of nationhood cannot be applied to any region of PNG; rather than considering themselves as 'Papua New Guinean', individuals identify only with their own community (usually based on language grouping) and have little contact with, or interest in, other groups. While cultural insularity is typical throughout PNG, it is especially evident on Bougainville, given the natives' extreme ethnocentrism at both the micro and macro levels.

The Bougainvillean desire of freedom from foreign domination predates the Panguna mine. The first manifestation occurred during WWII when a substantial number of islanders readily accepted Japanese promises to liberate the island from Australian rule. Although this was short-lived, various nationalist movements emerged during the post-war period as local discontent grew. By the 1960s, calls for independence were becoming organised and were being made known to the international community. Throughout this period, and in the time leading up to PNG's independence, both Port Moresby and Canberra chose to ignore Bougainville's developing self identity and its desire for self direction. It is difficult to determine whether the unilateral assumption of Bougainville into PNG in 1975 stemmed from arrogance, political expediency, or ignorance of the local situation, however it is clear that the lack of consultation on this matter is a lingering grievance with most Bougainvilleans. Local scepticism about the benefits of incorporation with PNG has been justified, as the neglect displayed by previous foreign governments continued after Bougainville's political union with PNG.

The national government's insensitivity to the people of Bougainville is apparent throughout BCL's tenure on the island. Bougainvilleans had no input into the decision to open the mine, and were not consulted about the terms of the 1967 and 1974 agreements (except through the representation of Paul Lapun, the local member of parliament). In the 1980s, BCL attempted to convince the government that the locals should be granted more generous compensation terms, but this was summarily rejected. Similarly, PNG's initial response to the revolution was one of force rather than negotiation. This authoritarian approach is alien to the Melanesian tradition in which consensus emerges from an extremely protracted and informal process of consultation.

While official indifference galvanised the islanders' objections to outside governance, Bougainville's internal politics were marked by increasing divisions between and among village communities. Of particular importance to the mine were the perceived inequities in the distribution of economic benefits (discussed above), and the rise of the 'new' generation. Over the years, BCL personnel had established relatively good working relationships with the heads of the various villages in the mining leases and, within the boundaries of law, matters of compensation, access, and so forth had been negotiated successfully with the elders. During the late 1970s however, younger members of the communities began to challenge the authority of the elders and questioned their right to make agreements with the company. This brought the young men into conflict with their leaders, and caused difficulties for BCL managers who were obliged by Bougainvillean tradition to deal with the chiefs of the villages.

## **Summary**

The foregoing discussion demonstrates the extent and nature of the contextual heterogeneity surrounding the Panguna operation. Table 7.1 summarises and contrasts the main environmental characteristics of the host country and the host society according to the four established environmental dimensions. Whereas each element of the exogenous milieu may be expected to affect the management processes of MNEs, BCL was subjected to two distinct and generally opposing sets of environmental forces within the one setting. The lack of cohesion within the host society effectively produced a sub-set of external variables which further complicated BCL's management of the environment.

**Table 7.1 Summary of the Environmental Characteristics of PNG and Bougainville**

	<i>Papua New Guinea</i>	<i>Bougainville</i>
<b><i>Environmental factors</i></b>		
<b><i>Legal</i></b>		
<i>Scope of the legal system.</i>	Embraces the entire country.	Applies only to the individual community.
<i>Permanency of individual laws.</i>	Stable. Once enacted, laws remain valid until changed by parliamentary process.	Fluid. Laws* change regularly, according to the immediate needs of the community.
<i>Ownership of sub-soil resources.</i>	State.	Community which occupies the relevant land
<i>Rights to employment on Bougainville.</i>	Open to all PNG citizens and expatriates.	Restricted to Bougainvilleans.
<b><i>Cultural</i></b>		
<i>Focus of the cultural system.</i>	National.**	Parochial.
<i>Attitude towards ethnic division.</i>	Intermingling with PNG population encouraged.	Hostile to non-Bougainvillean PNG citizens, accepting of whites and (generally) latently antagonistic towards other Bougainvillean clans.
<i>Land usage.</i>	For economic development.	For sustaining temporal and spiritual life. Security.
<i>Local governance.</i>	Parliament has ultimate authority.	Tribal leaders have ultimate authority.

\* The term 'law' is used for consistency in comparing the PNG and Bougainvillean approach to governance. The legal system in Bougainvillean communities relies on custom, rather than Western perceptions of legislation and judicial decisions.

\*\* A united PNG is an objective of government policy rather than a concept which is widely held by the population of the country. Most communities, like those on Bougainville, eschew the notion of nationhood.

**Table 7.1 Summary of the Environmental Characteristics of PNG and Bougainville (Continued)**

	<i>Papua New Guinea</i>	<i>Bougainville</i>
<i>Environmental factors</i>		
<i><u>Economic</u></i>		
<i>Focus of economic system.</i>	Market forces.	Egalitarian system akin to socialism.
	Generation of personal and corporate wealth and national development.	Divided between the maintenance of a subsistence economy and monetisation.
<i>Position on foreign investment.</i>	Welcoming.	Suspicious.
<i>Perspectives on government income from the Panguna mine.</i>	Distributed nationally.	Retained on Bougainville.
<i>Environmental sustainability.</i>	Low priority.	High priority.
<i><u>Political</u></i>		
<i>Focus of political system.</i>	To account for all PNG citizens.	To account for members of the community.
<i>Approach to governance.</i>	Authoritarian.	Consultative.
<i>Resolution of disputes.</i>	Situations remedied quickly by the rule of law.	Slow process of negotiation.
<i>Attitude towards Bougainvillean self determination.</i>	Strongly resisted.	Strongly pursued.
<i>Leadership.</i>	Elected from any of PNG's 700 ethnic groups.	Restricted to members of each community.
<i>Representation.</i>	By a small number elected from the national population.	By all male community members (with considerable input by the females who 'own' the land).

## EXAMINATION OF THE INTERNAL ENVIRONMENT OF BOUGAINVILLE COPPER LIMITED

It was noted in Chapter 2 that MNEs need to align their organisation and management with the external environment if corporate performance is to be maximised. This is particularly important in emerging economies where the institutional framework of the country has evolved without the influence of a significant commercial sector. The key organisational components of environmental congruence between MNEs and their LDC hosts were identified in Chapter 2. This section examines the internal environment of BCL according to each of these components.

### **Convergence, Divergence and Crossvergence**

International management researchers began to consider convergence and divergence in the late 1950s. By the early 1960s, theories of convergence dominated contemporary thought as they appeared to offer significant economies in the administration of firms operating in more than one country (Haire *et al.*, 1966; Harbison & Myers, 1959; Kerr *et al.*, 1973). From the commencement of exploration in 1964, it was evident that BCL management had elected to ignore the conventional wisdom of the day. At the executive level, Managing Director Frank Espie (refer Appendix J) had made it clear that the Bougainvilleans should be involved in the venture from the outset and that they should benefit from the mine's presence should it go ahead. At the operational level, Senior Geologist Ken Phillips (refer Appendix J) was anxious to develop a cordial relationship with the communities he encountered within the prospecting areas and made every effort to achieve this objective. By focusing on the needs of the local environment, BCL management had embraced elements of the divergence hypothesis (Child, 1981; Hofstede, 1987; Laurent, 1986) at a time when the theory had little academic support and the traditions of Western commercialism were not particularly concerned with the impact of economic development on foreign social systems. The endeavours which Espie, Phillips and their contemporaries initiated in attempting to accommodate the host society remained a management priority for the life of the mine, as evidenced in the following review of BCL's policies and practices.

Perceptions of the manner in which land should be used remained the most divisive issue confronting the company and the locals. Operating according to Western attitudes, BCL management fundamentally regarded land as a resource similar to any other; a commodity to be exploited and traded for an economic

outcome. The Bougainvilleans however, viewed land as the keystone of their physical, emotional and spiritual security. Understanding that these views were immutable, and that the survival of both parties depended on the same land, BCL executives tried to compromise with the islanders within practical and commercial limits; only the minimum amount of land required for the mine and its infrastructure was used, facilities were sited in less sensitive locations where possible, a pipeline to divert tailings from the river was commenced<sup>105</sup>, and substantial compensation for land usage was paid.

BCL's social policies included the establishment of the Village Relations Program as an informational conduit, hiring as much indigenous labour as possible, promoting and funding education and technical training, sponsorship of a trade union, organising an employee integration system (which not only assisted local workers in acclimatising to Western living and working, but also instructed expatriates in PNG and Bougainvillean customs), supporting the formation of local enterprises through the Bougainville Development Corporation, and providing medical, community, recreational, worship and shopping facilities.

Management maintained that the success of the mine ultimately rested on the relationship between the company and the Bougainvillean people, and to this end supported the view that the locals should be involved in any decisions which affected their lives. While efforts to achieve a consultative atmosphere were officially circumscribed by the government's objection to indigenous input, a large measure of mutual understanding was accomplished by company personnel communicating directly with the villagers despite Port Moresby's prohibition.

As well as attempting to adapt its activities to the Bougainvillean environment, BCL management also endeavoured to accommodate PNG. With the exception of defying government policy by engaging in dealings with the landowners, management adhered rigidly to PNG's legislative and political prescriptions. The company's conscientiousness to conform with PNG's demands is reflected in its repeated reluctance to challenge the government, even over issues which were potentially detrimental to the operation or its relationship with the

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<sup>105</sup> Contrary to published reports which indicate that the tailings pipeline was commenced as soon as appropriate technology was available, a former mine executive informed the writer that the company delayed construction for a period. It is his personal opinion that, in this regard, BCL had erred (Personal communication, 1998).



Bougainvilleans. Management's compliant behaviour is evident in the acceptance of the *Mining (Bougainville Copper Agreement) Amendment Act 1974* which substantially reduced the mine's profitability, and its unwillingness to pressure the government for indigenous consultation or royalty and fee reforms beyond cordial petition. BCL's acquiescence to all official requirements is instructive in two areas. Firstly, it is clear that management was determined to act with all propriety towards its host country. This is supported by Dorney (1990:121):

...Bougainville Copper Limited was an exemplary corporate citizen of PNG from the day the Bougainville Copper agreement was renegotiated in 1974, the year before Independence, till the mine was knocked out of action by sabotage attack fifteen years later.

Secondly, it strongly rebuffs accusations that management attempted to exert economic or political pressure on the government to gain concessions for itself.

Although it is doubtful that the mine's managers considered their actions in the light of convergence–divergence–crossvergence theories, they appear to have been intuitively aware of the need to integrate established management and mining practices with the prevailing environment. Contrary to conventional management practices in LDCs at the time and without political or legislative coercion, management displayed an uncommon sensitivity and responsiveness to the history, customs, aspirations and fears of Bougainvillean people. Much of the success of the company may be attributed to the ability of successive managers to balance the commercial and political demands of the mine with the peculiar human and material needs of the host society. It may be argued that in dealing with PNG, the company had little choice but to accept the authority of the host country government, and thus a measure of divergence at the national level was imposed on BCL. However the decision not to contest governmental rulings, even in the face of possible disadvantage to the company, may be equally construed as an indicator of management's desire to align its operations with the wider environment. It appears therefore, that the overall management approach sought by BCL executives was one of crossvergence whereby they aimed to combine the economic, cultural and social influences of the company, the host country and the host society to develop a distinctive value system which would meet the needs and aspirations of all parties.

### **Management Philosophy**

The success of BCL's executives in synthesising largely antithetic values into a unique and mutually acceptable working milieu was the result of blending

corporate pragmatism and social responsiveness. The company's sustained profitability<sup>106</sup> was the consequence of balancing conventional and non-traditional approaches to corporate governance and organisation, adherence to accepted mining practices, and a high degree of flexibility and innovation in dealing with contextual diversity. This reveals that BCL's management was able to discern which aspects of Western management practices could be applied directly to the Bougainville situation, and which could not and thus needed to be modified or discarded. The perspicacity with which management made the etic-emic distinction in this regard may be attributed to the philosophies held by the executives, both individually and collectively.

As noted in Chapter 2, Katz (1974) claims that the requisite skills of management are technical, human and conceptual. While attention to the technical aspects of running the mine were clearly a vital ingredient in BCL's success, this issue is not pursued in this thesis. From Panguna's consistent performance it may be assumed that the managers were competent in, and committed to, accepted mining and commercial practices. The conceptual and human abilities of those managers were unique however, and warrant detailed consideration.

Documentary and interview evidence exhibits uniform acclaim for Frank Espie's contribution to the Panguna operation, particularly with regard to his work during the establishment period of the mine. A remarkable feature of all reports about Espie is that they are so focused on his humanitarianism, that his business and mining acumen, which were extensive, seem almost of secondary importance. This appraisal of BCL's first Chairman appears justified as it is clear that Espie's personal convictions about the dignity and rights of the Bougainvilleans were a significant factor in the company's good relationship with the natives, and this relationship was the cornerstone of the environmental congruency discussed above. The following observations by contemporaries of Espie provide valuable insights into his views of mining on Bougainville.

Anthropologist Douglas Oliver (refer Appendix K):

Espe...create[d] and shape[d] what was for Australia a very large and new kind of mining project in a new and daunting geographic and political setting. [He] travelled almost continuously...to plan review, and oversee field operations in Bougainville; and, not least, to visit Bougainvillians in their villages. Although he very much wanted the mine to 'go', it was just as evident (to myself and others) that he was sensitively aware that the mine would inevitably bring about radical changes in the

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<sup>106</sup> Although the returns from the operation fluctuated from year to year, the company recorded annual profits for the life of the mine. A breakdown of yearly results is detailed in the BCL Annual Report, 1988.

lives of many Bougainvillians, and that he tried in every way known to him to protect them from the injurious aspects of those changes and to make it possible for them to share in the financial benefits produced by the mine.

He personally visited both governments and mining operations...in other developing countries, and ensured that his other senior managers did likewise at the project stage and thereafter. These visits were frequently sobering, the more so when on-ground experience modified or contradicted official and academic accounts of events.

Espie travelled intellectually as well, attempting to secure advice and experience from sociologists, anthropologists, geographers. In the world mining industry of the 1960s this was a decidedly unusual priority, common though such consultations have now become. Equally unusual was his willingness to enter the open forum, whether at the Waigani seminars at the infant University of PNG or in local liaison.

The late Colin Bishop, the long-term site engineer who...developed a special talent for community relations, would recall with relish the blank disbelief of local villagers when this large sweating Chairman appeared among them in shorts and boots, and was introduced as '*nambawan bilong kampani*' (top man of the company). Their reaction was 'no way'... (Oliver, 1991: 156).

In an interview with the researcher, a former BCL executive who worked with Espie for many years noted that:

...all the credit for the success of Bougainville should go to Frank Espie. He was the ... person with the ideas - a man ahead of his time in terms of trying to find the way to do things in a foreign and undeveloped society... It was because of Frank's thoroughness in the way he went into the background of Bougainville that things went so well for so long. I feel very sorry for Frank that the whole thing blew up.

Espie travelled the world ... talking to people who were involved in mining in Africa in particular to find out from them what went wrong in the past ... to make sure it did not happen in Bougainville. Frank recruited a couple of anthropologists [who] were very helpful in advising us on how to go about developing the area with minimum impact on the local people (Personal communication, 1998).

The profile of Espie which emerges from these reports is one of an intellectually independent visionary whose extraordinary sensitivity to alien cultures was far ahead of the period in which he operated<sup>107</sup>.

Although the biographical details of other BCL executives are not as well documented as those of Espie, there are indications that they shared similar attitudes towards the Bougainvilleans. Empathy with the villagers and their situation is apparent in the recollections of Don Vernon and Don Carruthers (refer Appendix J) who noted after the closure of the mine that:

Development has been thrust upon [the Bougainvilleans], and its effects have been vast, even traumatic in some cases...some of them have lost their land forever, and have had to live with the intrusion of the mine into their lives, with its consequent social and environmental impact (Carruthers & Vernon, 1990:69).

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<sup>107</sup> The passion of Espie's attitude towards the welfare of Bougainvilleans is reflected in his dismissal of the CRA board's suggestion he was 'crazy' to be so concerned about the locals (above). In interview, the writer asked Sir Frank to elaborate on this point, and was informed that "mining men did not pay much attention to blacks in those days; I thought differently" (Personal communication, 1998).

Callick provides further insight into Carruthers, describing him as “the long-suffering and humane [executive] chairman of Bougainville Copper Ltd” (Quodling, 1991:vii). In his 1991 history of the mine, former BCL managing director Paul Quodling alludes to his personal attachment to, and respect for, the indigenes. Of the geologist Ken Phillips (refer Appendix J), a former colleague noted during interview that he “was more than a chipper of rocks; he was a very good social thinker and he made the point that some Bougainvilleans were not happy...” (Personal communication, 1998).

As discussed previously, BCL’s external environment was characterised by the enduring division and hostility between PNG and Bougainville. Accordingly, management formulated strategies and policies with the intent of sustaining the acceptance and support of both the host country and the host society. Attempts to satisfy each entity simultaneously was flawed in practical terms however, as a past BCL executive reports:

The biggest error we made was to think that we, as a company, were there for the benefit of all [PNG]... Our agreement was with the PNG government and we saw Port Moresby as our chief area of control... And so whatever we did, we had to do with their approval. If we had their approval, then it was legally acceptable and correct and we were able to do it. This was a mistake because nobody in PNG considers themselves as a Papua New Guinean (Personal communication, 1998).

This observation suggests that the company’s national orientation was guided more by political and legal imperatives than management’s intimate understanding of the social and human realities of the situation. For the individual executives, private reconciliation of this duality must have been difficult. On one hand, their innate sympathy with the Bougainvilleans compelled them to maximise the mine’s benefits at a local level; on the other hand, their positions as corporate officers required them to fulfil their obligations to the host country irrespective of their personal perspectives.

In the ethnographic tradition, the above impressions of the mindsets of BCL’s senior executives are based on observation and self-reporting and, as such, cannot be considered conclusive. They do however, provide an informed perception of the ethos which guided the management of the mine. Evidence of the prevailing management philosophy is reflected in the company’s policies, its dealings with the Bougainvilleans, and in its handling of individual incidents (reported in Chapter 5). Further confirmation of the managers’ personal characteristics and integrity may be inferred from the silence of the company’s detractors; whilst BCL and the mine were subject to criticism from many quarters, particularly after its closure (refer Chapter 6), the researcher has

found no reports which question management's sincerity or intentions regarding the welfare of the Bougainvillean people.

From the information available, it may be concluded that key executive positions in BCL were successively filled by people who possessed those personal qualities which Knotts (1989), Schwartz and Saville (1991), Heller (1980), Phatak (1997) and Anderson (1997) suggest are essential for managing MNEs in LDCs. Determining the origins of these characteristics is beyond the scope of this study, however an insight into Espie's philosophies can be gained from his account of his youth in Burma where he witnessed the superior attitudes of Western people towards the locals.

Although BCL consistently appointed senior managers who possessed beliefs, values and attitudes which were appropriate to Bougainville's human environment, the manner in which these inherent qualities were identified is elusive. There is nothing to suggest that the managers undertook personality or psychological appraisals to ascertain whether their disposition was suitable to the task. Similarly, it is doubtful that these traits were directly inculcated by the company as no specialised training in dealing with Bougainville's unique situation seems to have been administered. The phenomenon does however, seem to support research which indicates that the vision and ideals of the founder (in this case, Espie) are perpetuated in an organisation's culture (Deal & Kennedy, 1982; Doktor, 1990; Peters & Waterman, 1982; Schein, 1985). Thus, it can only be assumed that BCL's internal culture valued these attributes, and the selection of executives was based, in some measure, on judgments concerning individuals' alignment with that culture. The matter of BCL's corporate culture is explored in the following section.

### **Organisational Culture**

Just as the organisational culture of all MNEs is a reflection of home and host country national cultures plus the philosophies held by management (Al-Shammari, 1994; Laurent, 1986; Redding & Ng, 1992), so was BCL's culture a meld of these influences. As noted previously, the company recognised the importance of integrating traditional management systems with the external environment, and thus its policies and practices were an amalgam of Western approaches to organisation and commercialism, PNG's expectations, and Bougainvillean traditions. Equally, the influence of the managers' ideologies are evident in BCL's approach to its operations. The combination of these

dimensions resulted in a corporate culture that, for its time, was unique among large-scale mines – particularly those situated in LDCs.

Espie's aversion to racism became fixed in the company's culture from the beginning and harmonious workplace relationships remained a priority for the life of the mine. In effect, BCL had adopted the principles of equity and merit years before EEO legislation was introduced in its home country. BCL's induction program provided for the acculturation of both indigenous and expatriate personnel, and company policy forbade any expression of racial prejudice from its employees. No place of work or recreation was segregated. As reported in Chapter 5, BCL's approach to integration was successful insofar as the relationship between the natives and Caucasians remained amicable for nearly 25 years and only began to deteriorate when organised opposition to the mine emerged. The latter day decline in this harmony accords with the observations of Laurent (1986), Hofstede (1991) and Weber *et al.* (1996) that when national and corporate culture are in conflict, the former will prevail.

Whereas BCL's integrative approach to workplace relationships on Bougainville was successful in fostering rapport among natives and Caucasians, it was inappropriate when applied to PNG citizens due to the extremely complicated ethnic divisions throughout the country. Bougainvillean clans had little in common and barely tolerated one another, the Bougainvilleans collectively despised the Niuginians and vice versa, and the Niuginians who worked on the island were as tribally divided as the Bougainvilleans. This climate produced significant and ongoing racial tension which was inconsistent with BCL's goal of a collaborative and diverse workplace. However, because the ideals of multiculturalism were so deeply ingrained in the company's culture, management persevered with its inclusive policies rather than attempting to address the root of the problem.

In effect, BCL management had only two alternatives by which it could rectify the matter: it could either totally exclude non-Bougainvilleans from its indigenous workforce, or restrict employment to ethnically tolerant people. While the former option would have satisfied the locals, many issues militated against it. Firstly, Bougainville did not have a sufficient number of suitable people to meet the mine's requirements, therefore a much larger proportion of expatriates would have been needed and this would have dramatically increased operating costs. Secondly, the exclusion of Niuginians may have ignited open conflict between the mainlanders living on the island and the locals. Thirdly,

discrimination in favour of Bougainvilleans, although not illegal, was likely to draw criticism from the PNG and Australian governments. Most importantly however, discriminatory employment practices would have violated management's convictions that the mine should (i) be of benefit to the entire nation, and (ii) utilise as much indigenous labour as possible. Hiring racially tolerant people would have decreased friction between workers and strengthened BCL's inclusive workplace relations culture. Although this strategy aligns with proposals by Deal and Kennedy (1982) and Ott (1989) that the maintenance of a diverse work environment is dependent on hiring only those who hold multicultural principles and removing those unwilling accept them, it would have been difficult to implement.

The Bougainvilleans conformed with Hofstede's (1995) proposal that LDC nationals are typically collective by nature (low individualism) and prefer a paternalistic work environment (large power distance). The islanders' propensity for collectivism explains their close tribal attachments which, in turn, explains their aversion to people from other PNG provinces and their abiding suspicion of the mine. Paradoxically, the same characteristic also explains their dedication and application as employees; their sense of group affiliation produced a strong work ethic based on loyalty to the company. Of the indigenous workforce, a former mine executive reported in interview that:

The workforce at Panguna was very good. Technically, the operation with the high local labour content of about 80% was as good as I've seen anywhere in the world. The Papua New Guineans and Bougainvilleans made excellent operators and excellent tradesmen. ...costwise, safetywise and in every way, our operation was better than any of the other CRA operations in Australia (Personal communication, 1998).

Although management's insistence on employing a high proportion of PNG nationals was initially viewed by many as imprudent, it is evident that this policy was extremely effective. In return, the company rewarded indigenous employees for their contribution by way of extensive training and development opportunities (discussed previously) and by promoting them to responsible positions. In an industry where LDC citizens are often confined to manual tasks, BCL appointed indigenes to many technical and managerial roles<sup>108</sup>.

Whereas corporate benevolence in some settings may be construed as condescending, BCL management's paternal attitude was appropriate to the Bougainvillean psyche. The culture of social and economic responsibility

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<sup>108</sup> Exemplary of this practice was the appointment of a Bougainvillean as head of BCL's human resources and community relations department. A Bougainvillean was also a member of BCL's Board of Directors.

which Espie had instilled into the company aligned with the Bougainvilleans' expectations of reciprocal obligation. The outcomes of this approach were not those anticipated by management, however. The PNG government used BCL's largesse as an excuse to largely abdicate its responsibilities to the island<sup>109</sup>. This had two effects. Firstly, given PNG's past neglect of Bougainville, this attitude further aggravated the relationship between the Bougainvilleans and the national government. Secondly, a welfare mentality emerged in some quarters whereby locals looked to the company for most of their material needs<sup>110</sup>. Further, frictions and jealousies developed among the Bougainvilleans; those who lived in the mining leases perceived inequities in the distribution of benefits, and those who lived in other regions were aggrieved that they received fewer advantages from the mine relative to those living in the leases.

### Summary

From a Western perspective, it is difficult to criticise those aspects of BCL's internal environment which have been reviewed in the preceding pages. Based on the altruistic aspirations laid down by Espie, successive managers gave careful consideration to the outcomes of their decisions. Through an uncommon respect for its host country and sensitivity to its host society, management blended modern mining and management practices with inappropriate laws, diverse demands and ancient cultural traditions to develop a corporate culture which would largely satisfy PNG, the Bougainvilleans and the company for many years. BCL's management thus engaged the essence of Fatehi's (1996) 'constructive neutrality'. It minimised clashes with the environment by manipulating the operation to suit its hosts and by working in concert with external entities on those issues which could not be resolved by organisational adjustments.

Thus far, this chapter has explored the nature of BCL's external and internal operating environment and examined the company's management of the

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<sup>109</sup> Of this, a former executive noted: "The 1974 agreement was not ... unreasonable ... but it was only reasonable if both sides performed what they were supposed to perform, and this is where the government fell down. The government was supposed to provide very good facilities... but they did not... so we had to hire our own security group to assist the police... build our own hospital... supplement the education budget... I'm sure the government felt that if the Bougainvilleans needed things badly enough, the company would make sure they got it (Personal communication, 1998).

<sup>110</sup> Although PNG's relinquishment of its obligations to Bougainville was largely responsible for this phenomenon, other forces may have been involved. There is evidence to suggest that the advent of a large enterprise in a small community tends to spawn an attitude of local dependence on that company (see, for example, Moss Kanter's (1995:186–189) report on Honda's facility in Marysville, Ohio, U.S.A.).



demands of these environments in the light of the prior research presented in Chapter 2. The investigation has revealed that, across the stated contextual dimensions, BCL management generally adhered to the principles of appropriate MNE governance espoused in the literature. This approach proved to be effective; the company traded profitably year after year, and its relationship with the host country and host society was, in the main, mutually agreeable. Notwithstanding, BCL's financial and social success came to an abrupt end. This suggests that certain features of the company's management and organisation were not, in fact, appropriate to the prevailing conditions. Those factors which appear to have contributed to BCL's failure are examined the following sections.

### **ANALYSIS OF THE MANAGEMENT OF BOUGAINVILLE COPPER LIMITED**

This section has two aims. First, the manner in which the data were analysed is explained. Building on the procedures of analysis presented in Chapter 3, the process of interpreting the respondent interviews using NUD\*IST software is described. Second, the findings of the analysis are discussed. The fundamental considerations of this analysis are: (i) how management addressed the issues which emerged from BCL's external and internal environment, (ii) the principal determinants of BCL's failure, and (iii) the identification of any connections between management actions and the closure of the mine. This section is structured according to the environmental elements noted previously.

#### **Data Analysis and Interpretation**

As described in Chapter 3, 'Stage One Coding' resulted in the production of a series of data categories (nodes) into which portions of interview text were grouped according to significant terms, events and issues which emerged from the data. Using the NUD\*IST software Index Search facility, 'Stage Two Coding' was conducted. This process scanned the data within each existing node, identified segments of text containing related themes, created new nodes, and saved the results of the search at those nodes. As NUD\*IST produced these new nodes, they were appended to node 5 (refer Appendices D and G). A summary of this analysis, that is the intersection of 'Stage One' nodes, is displayed in Table 7.2. This matrix depicts the subjects' characteristics on the vertical axis and environmental factors on the horizontal axis. Each cell reports the incidence of the data in the intersecting nodes as determined by the

NUD\*IST program and shows the appropriate node reference<sup>111</sup>. In order to facilitate the interpretive process which followed, the numeric products generated by NUD\*IST were converted to descriptors ranging from 'Nil' (no common themes between the actors' characteristics and environmental elements were identified) to 'Very High' (a significant number of common themes between the actors' characteristics and environmental elements were identified); this is presented in Table 7.3. Guided by the informants' perceptions arrayed in Table 7.3, the entire body of data (interview material, case narrative and previously compiled memos) was subjected to the interpretation processes described in Table 3.3. The outcomes of the interpretive analysis were then verified according to the procedures listed in Table 3.4. The findings are presented below.

## **The External Environment**

### *Legal factors*

Table 7.3 supports assertions by May (1990) and Oliver (1991) that the disposition of the various groups towards the prevailing legal environment was polarised. Whereas the Bougainvilleans, the Niuginians and third parties displayed indifference or hostility towards the law, the management of BCL exhibited a moderate to high regard for the host country's legal institutions and its prescriptions. As a consequence of these opposing perspectives, the legal system represented a substantial barrier in the relationship between management and the majority of those with whom they dealt. The Bougainvilleans, in particular, found the legal system repugnant. They considered that the laws which governed the mine were inappropriate and irrelevant because they were incompatible with many of their fundamental beliefs and institutions. As a result, many islanders refused to accept the rule of national legislation or court decisions<sup>112</sup>.

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<sup>111</sup> NUD\*IST calculates this relationship by expressing the incidence of matching themes as a percentage of the total number of text units identified during 'Stage One Coding'. For example, the intersection of nodes 2.3 and 4.2.1 (refer Appendix G) shows 7/0.94%; i.e. of the 741 text units scanned, 7 (0.94%) match the criteria. The common text segments of nodes 2.3 and 4.2.1 are stored at node '54:Index' (see Appendix D).

<sup>112</sup> The Bougainvilleans' rejection of imported and unilaterally imposed laws might have been expected, as the effectiveness of any legal system depends on it being regarded as fair and just by those whom it purports to serve (Coplin, 1966).

**Table 7.2 Numeric Results of NUD\*IST Interview Analysis (Stage Two Coding)**

		EXTERNAL ENVIRONMENT				INTERNAL ENVIRONMENT		
		Legal factors	Cultural factors	Economic factors	Political factors	Con-cross-divergence	Management philosophy	Organisational culture
	<i>NUD*IST Node Identification</i>	4,2,1	4,2,2	4,2,3	4,2,4	4,1,1	4,1,2	4,1,3
<b>HOST SOCIETY Bougainville</b>								
Attitudes	1,1	0 (5:Index)	34/4.6 (6:Index)	3/0.40 (7:Index)	7/0.94 (8:Index)	1/0.13 (2:Index)	2/0.27 (3:Index)	3/0.40 (4:Index)
Values	2,1	0 (33:Index)	32/4.3 (34:Index)	8/1.1 (35:Index)	1/0.13 (36:Index)	0 (30:Index)	1/0.13 (31:Index)	0 (32:Index)
Behaviour	3,1	0 (61:Index)	4/0.54 (62:Index)	0 (63:Index)	2/0.27 (64:Index)	0 (58:Index)	0 (59:Index)	1/0.13 (60:Index)
<b>OUTSIDERS - PNG</b>								
Attitudes	1,2,1	1/0.13 (12:Index)	3/0.40 (13:Index)	2/0.27 (14:Index)	9/1.2 (15:Index)	0 (9:Index)	0 (10:Index)	2/0.27 (11:Index)
Values	2,2,1	2/0.27 (40:Index)	3/0.40 (41:Index)	4/0.54 (42:Index)	14/1.9 (43:Index)	1/0.13 (37:Index)	0 (38:Index)	2/0.27 (39:Index)
Behaviour	3,2,1	1/0.13 (68:Index)	4/0.54 (69:Index)	1/0.13 (70:Index)	15/2.0 (71:Index)	3/0.40 (65:Index)	0 (66:Index)	3/0.40 (67:Index)
<b>OUTSIDERS - Others</b>								
Attitudes	1,2,2	0 (19:Index)	2/0.27 (20:Index)	0 (21:Index)	6/0.81 (22:Index)	0 (16:Index)	0 (17:Index)	1/0.13 (18:Index)
Values	2,2,2	0 (47:Index)	0 (48:Index)	0 (49:Index)	4/0.54 (50:Index)	1/0.13 (44:Index)	0 (45:Index)	1/0.13 (46:Index)
Behaviour	3,2,2	0 (76:Index)	0 (77:Index)	0 (78:Index)	12/1.6 (79:Index)	0 (73:Index)	0 (74:Index)	0 (75:Index)
<b>MANAGEMENT</b>								
Attitudes	1,3	6/0.81 (26:Index)	4/0.54 (27:Index)	2/0.27 (28:Index)	1/0.13 (29:Index)	0 (23:Index)	12/1.6 (24:Index)	8/1.1 (25:Index)
Values	2,3	7/0.94 (54:Index)	4/0.54 (55:Index)	2/0.27 (56:Index)	5/0.67 (57:Index)	6/0.81 (51:Index)	17/2.3 (52:Index)	26/3.5 (53:Index)
Behaviour	3,3	9/1.2 (83:Index)	7/0.94 (84:Index)	14/1.9 (85:Index)	8/1.1 (86:Index)	12/1.6 (80:Index)	6/0.81 (81:Index)	32/4.3 (82:Index)

**Table 7.3 Descriptive Results of NUD\*IST Interview Analysis (Stage Two Coding)**

		EXTERNAL ENVIRONMENT				INTERNAL ENVIRONMENT		
		Legal factors	Cultural factors	Economic factors	Political factors	Con-cross-divergence	Management philosophy	Organisational culture
	<i>NUD*IST Node Identification</i>	4,2,1	4,2,2	4,2,3	4,2,4	4,1,1	4,1,2	4,1,3
<b>HOST SOCIETY Bougainville</b>								
Attitudes	1,1	Nil	Very high	Low	Medium	Very low	Low	Low
Values	2,1	Nil	Very high	High	Very Low	Nil	Very Low	Nil
Behaviour	3,1	Nil	Medium	Nil	Low	Nil	Nil	Very low
<b>OUTSIDERS - PNG</b>								
Attitudes	1,2,1	Very low	Low	Low	Medium	Nil	Nil	Low
Values	2,2,1	Low	Low	Medium	High	Very low	Nil	Low
Behaviour	3,2,1	Very low	Medium	Very low	Very High	Low	Nil	Low
<b>OUTSIDERS - Others</b>								
Attitudes	1,2,2	Nil	Low	Nil	Medium	Nil	Nil	Very low
Values	2,2,2	Nil	Nil	Nil	Medium	Very Low	Nil	Very low
Behaviour	3,2,2	Nil	Nil	Nil	High	Nil	Nil	Nil
<b>MANAGEMENT</b>								
Attitudes	1,3	Medium	Medium	Low	Low	Nil	High	High
Values	2,3	Medium	Medium	Low	Medium	Medium	Very high	Very high
Behaviour	3,3	High	Medium	High	High	High	Medium	Very high

The company's management was ambivalent about the legal climate in which the mine operated. While ensuring BCL followed the letter of the law, the executives empathised with the locals' objections and made several attempts to persuade the central government to change various aspects of the legislation governing the mine. Port Moresby largely ignored their requests however, and steadfastly refused to consult with the Bougainvilleans on any substantial matters. Management's tolerance of this situation, as well as their compliance with the law, was interpreted by the islanders as a tacit expression of the executives' agreement with the PNG government. It is not difficult to comprehend the Bougainvilleans' confusion and their eventual anger with BCL. On one hand, management was claiming to understand how the law favoured the interests of PNG and the company while marginalising the interests of local communities. On the other hand, management was reluctant to press seriously for legislative changes. At best, BCL's managers appeared to lack resolve; at worst, they appeared duplicitous. Evidence from the case invalidates suggestions of deception on the part of management, as they were consistently open and sympathetic in their dealings with the villagers. Nevertheless, they were inadequate in their dealings with the government. Just as the executives accepted the 1974 amendments to the Act, they were reluctant to pressure Port Moresby for the legal amendments to which they believed the Bougainvilleans were entitled.

Two explanations may be offered for the behaviour of Panguna's management. Firstly, because they were extremely conscious of BCL's position as a foreign corporation in an LDC, they were determined to act responsibly and with respect for the authority of the host country. Secondly, being Australian, the managers were accustomed to the logic which underpinned PNG's essentially British legal system. They were cognisant of the benefits which the existing legislation brought to the nation as a whole, and advancing PNG had been the fundamental mission of BCL's social program from the outset.

Management's reticence in demanding legislative change reflects a traditional Western approach to corporate behaviour in regard to the law. In this case, the BCL executives appear to have made an error of judgment. The long term effect of their compliance with the host country's laws was the alienation of the host society, the support of which was essential to the company's survival. Former mine managers sustain this suggestion, noting variously:

We bent things as far as we could to help the locals but if we had realised things were going to blow up the way they did we would have pressured the government more. ...we did not thump the table hard enough in terms of insisting that the government provide the Bougainvilleans with a bigger slice of the action, or that they sit down with the Bougainvilleans and renegotiate the agreement between themselves so they satisfied the Bougainvilleans on what should happen (Personal communication, 1998).

... it may have been better if the company could have taken a bigger role in looking after the Bougainville people... Maybe we should have said to the government "bugger you, we are going to look after these people anyway". It was not a cost factor... The company tried to point out to the government that these issues needed to be addressed...but it fell on deaf ears... (Personal communication, 1998).

Given its prominence in the PNG economy, BCL was in a remarkable position to persuade the national government on most issues, particularly those concerning the laws to which it was subject. Management's failure to influence parliament would, in time, contribute to the island's rebellion, the demise of the company and the weakening of the PNG economy. Notwithstanding, the interference of MNEs in the regulation of their host countries is a contentious issue (Emmanuel, 1984; Hoogvelt, 1991; Vernon & Wells, 1986), and it may be assumed that any intervention by BCL in PNG's affairs of state, irrespective of its inherent wisdom, would have drawn criticism from the government's opposition parties, Australia, and perhaps the world community.

### *Cultural Issues*

Column 4 of Table 7.3 cross-references the characteristics of the protagonists with the influence of cultural factors on the events on Bougainville. The results suggest that only two groups were substantially concerned with cultural issues; the Bougainvilleans and BCL's management.

Although cultural changes on Bougainville had been evolving gradually since WWII, the mine brought sudden and widespread interruption to traditional lifestyles, especially for those communities in the Panguna region. These changes were critical to the villagers, and they were imposed without adequate consultation. Whilst BCL personnel tried to explain and justify the presence of foreigners on Bougainvillean land, their efforts were insufficient and lacking in authority as far as the locals were concerned. Thus the Bougainvilleans not only suffered substantial and often deleterious cultural upheaval, they could not understand what was happening to them, or why it was occurring.

Espie's initial attention to minimising the social impact of the mine commenced an ongoing consideration for the local culture which would be continued by

subsequent managers until the mine closed. This concern was translated into various initiatives and policies, most of which were far more advanced than those of comparable operations anywhere in the world. However, these measures were not enough to assuage the deep resentment the Bougainvilleans felt about the disintegration of their culture and sense of self. While inadequacies in preparing the Bougainvilleans for change were largely responsible for discontent in the early days, the Panguna development itself was the major source of cultural disturbance. Although many facets of the mine's presence affected the Bougainvilleans' way of life, four appear to be particularly significant: the migration of Niuginians to the island, the employment of Niuginians by BCL, the consequences of land alienation and ecological disturbance, and the shift towards a commercial economy. These factors are examined hereunder.

Responsibility for the inadequate social preparation for the mine rests with the PNG administration and the Australian government, as these bodies carried the onus of the island's stewardship. Neither authority commissioned any research into the potential cultural effects of large-scale mining on Bougainville<sup>113</sup>, and thus it was impossible to estimate the ramifications of industrialisation, much less forewarn the islanders and take steps to ameliorate any impending problems. Given the absence of any official appraisal of the Bougainvillean culture, the company's founder, of his own volition, undertook the process. Espie's efforts, in both conception and execution, cannot be faulted, however they were not sufficient to the task. Transposing social knowledge gained in Burma and Africa to Bougainville may have provided a sound framework upon which to build, but it presupposes a global cultural homogeneity among LDCs which does not exist. As a former executive with intimate knowledge of the period noted: "There were not many parallels between the Bougainvillean situation and that in Africa" (Personal communication, 1998). Equally, seeking the counsel of two anthropologists reflects management's cultural sensitivity but, while their advice was of invaluable assistance, it was not sufficient. Therefore, as a result of government indifference, and despite the extraordinary efforts of the early executives, the company entered Bougainville with limited knowledge of the cultural milieu. Given these conditions, plus the difficulties associated with multi-dimensional language barriers, it is not surprising that the Bougainvilleans did not comprehend what was happening to their homeland.

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<sup>113</sup> Official neglect in assessing the future impact of mining was not confined to the social domain. The authorities did not consider the environmental and economic repercussions of development on Bougainville.

This situation was exacerbated by the uncertainty surrounding the physical outcomes of mining. The exploration process only reveals the presence of the lode; it cannot accurately foretell the extent of the resource and the eventual size of the pit required to extract it. Reflecting on this, and its contribution to local confusion and scepticism, a past mine executive reported that:

...we did not know what the mine was going to be; this is one of the great difficulties in exploration. In the past, companies have opened mines by making stupid promises and walk out when it fails; this upsets everybody. We did not do this – we were honest and told them we did not really know what the mine would be like. But then the people said “if you don’t know, who the hell does?” Our only reply could be “we don’t know what’s there yet”. Therefore you have the landowners whose [land] was going to be dug up and a company who did not know how much it needed to dig (Personal communication, 1998).

Thus, the early years of the mine were trying times for the Bougainvilleans. Preferring to live in isolation from each other and the outside world, they were invaded by people whose appearance, motives and behaviour were totally foreign. They sensed their cultural domain was under threat, but they could not understand it and were powerless to control it.

The influx of people from other PNG provinces was deeply resented by the Bougainvilleans. The islanders’ traditional mistrust of outsiders escalated to open hatred when they were exposed to a variety of cultures which embraced different values and attitudes concerning property rights, moral conduct, regard for local customs, and so forth. For their part, the Niuginians generally held the Bougainvilleans in contempt. Inter-ethnic marriages, which became more common over time, inflamed these tensions. The locals regarded the ‘redskins’ as another source of risk to their culture, and one which was inherently more dangerous than that posed by the caucasians. Aware of the depth, extent, and potential dangers of the friction between the Niuginians and Bougainvilleans, the mine’s management unsuccessfully petitioned the national government to arrest the flow of immigrants. A former BCL executive noted that:

Continually, management would ask the government “...why don’t you stop the flow of all these unemployables across the sea because they are disrupting everybody. They are making the communities unhappy. They are not getting jobs, so they are unhappy as well”. But the government in its wisdom said it could not limit the movement of its citizens (Personal communication, 1998).

For the government, BCL’s request would have been difficult to implement as all PNG nationals have the constitutional right of internal migration. However, neither the authorities or BCL made any attempt to search for alternative means of managing the situation; the government ignored the issue and the company’s managers tolerated the government’s inaction. In the absence of official control



of the movement of Niuginians to Bougainville, management could have made the island less attractive to immigrants by instituting policies which restricted indigenous employment to Bougainvillean people. Without the possibility of work at the mine, the mainlanders would not have been drawn to the island. Although this approach would have solved many problems, it was not palatable to Panguna's management as it would have been contrary to the company's ideals of the mine providing maximum employment and training benefits for PNG as a whole. In retrospect, a past manager now considers this approach was a mistake:

We saw that because we were located on Bougainville, there should be a higher proportion of Bougainvilleans than anyone else and as a result of that we had about 40% Bougainvilleans. But the result of having 40% Bougainvilleans meant that there was 60% non-Bougainvilleans. Although we thought that was a fair distribution across the country, the Bougainvilleans wanted 100% Bougainvilleans – no Papua New Guineans. We at no stage considered that because it was not possible to find the standard of people necessary if we confined recruitment to Bougainville. There is a copper mine on Misima Island [in PNG's Louisiade Archipelago] which started after we did. They agreed that they would recruit only local people and if they weren't available from Misima, they would recruit people from overseas. This was acceptable to the people of Misima because, like Bougainvilleans, they would rather have foreigners than other PNG races. I'm sure that if the [Panguna] mine ever started up again, it would be on the basis that the only nationals there would be Bougainvilleans (Personal communication, 1998).

An inescapable consequence of mining is its severe impact on the physical environment; it changes the landscape, it is unsightly, and it has the potential to impair ecological systems. To the Bougainvilleans however, damage to their land has a greater significance than concerns for the aesthetic and disturbance to the balance of nature. Interference with Bougainvillean land equates to interference with their culture. Aware that mining was incompatible with Bougainvillean society, but bound to the technology and processes associated with mineral extraction, BCL's management could do little but attempt to control the inevitable damage. In pursuit of this, the mining complex occupied as little land as possible, vegetation was rehabilitated around non-continuous projects such as landfill and road construction, and the dumping of tailings was restricted to one river system<sup>114</sup>. It is possible that management may have been able to do more in minimising the mine's effect on the environment, but it appears that this would have been of marginal benefit<sup>115</sup>. While it is evident that

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<sup>114</sup> As noted previously, the disposal of tailings in the river proved more problematic than anticipated. Early estimations that 80% of solids would wash to the sea were erroneous, and it was not realised that the build-up of tailings would prevent the Bougainvilleans from using a traditional ford for crossing the river.

<sup>115</sup> The exception to this would have been the earlier construction of the tailings pipeline. Taking the tailings out to sea however, would not have reduced ecological damage, rather it would have shifted it from one location to another.

disturbance to the natural realm had a significant impact on the cultural traditions of communities living near the mine; the true nature and extent of this impact cannot be reported because one would need to be a Bougainvillean to fully comprehend it. Therefore, the actual role of the environment-culture nexus in the Bougainvilleans' objections to the mine remains unclear to observers.

The cultural impact of Bougainville's development towards a commercial economy is reviewed in the following section.

### *Economic Issues*

Of the four external environmental dimensions investigated, economic factors appear to have been of least overall concern to the parties involved. Notwithstanding, the Bougainvilleans' values and the behaviour of BCL management both register as 'high' on this factor.

Conscious of the lamentable history of mining in other resource rich LDCs, BCL's management was determined to take a positive and beneficial role in the PNG economy. As well as accepting the legislated state imposts without contest, the company voluntarily contributed to PNG's development in various ways, including the offer of 20.2 per cent of its equity to the government, the localisation of the workforce supported by extensive training and education programs, the provision of various community facilities on Bougainville, and the establishment of the Bougainville Copper Foundation. At the national level, BCL continuously fulfilled Espie's objective of having a working arrangement which "would be satisfactory to the first independent PNG government" (Former mine executive, Personal communication, 1998). At the local level however, the economic relationship between the company and the Bougainvilleans was not satisfactory. Frictions emerged over the terms of compensation and occupation fees, the proportion of economic benefits accruing to the island, foreign equity, and the growing cultural effects of regional dualism among the locals.

The difficulties between BCL and the villagers over land acquisition, occupation fees and compensation for loss and damage did not result from management action, rather they were primarily engendered by Port Moresby's reluctance to include either the Bougainvilleans or the company in the regulatory process. Similarly, the problems arising from PNG's retention of the bulk of government revenue raised from the mine were technically outside

the control of the mine's management. BCL executives recognised the dissent these issues were generating on Bougainville, yet, as discussed above, they displayed insufficient determination in convincing the government to modify its policies.

Criticism of foreign equity had little justification in economic terms. Although private and corporate investors held 79.8 per cent of BCL stock, less than one third of the mine's income was returned to these shareholders as Carruthers and Vernon (1990:69) explain:

Since the commencement of operations, the project has generated K1754 million cash for its "stakeholders" (apart from the repayment of bank loans which helped fund the original development). This money has been paid out as follows:

	<b>K million</b>	<b>%</b>
Government of Papua New Guinea	1078	61.5
Government of North Solomons Province	75	4.3
Landholders	24	1.4
Non-Government Shareholders	577	32.8
	<b>1754<sup>116</sup></b>	<b>100</b>

The Government of Papua New Guinea received its income from the project as corporate income tax, customs duty and other miscellaneous taxes, dividends, dividend withholding tax and employee income tax; the Government of North Solomons Province as royalties, taxes and non-renewable resources fund; the landholders as compensation and five per cent of the royalties; and the non-government shareholders as dividends. CRA...has received 22 per cent of the cash generated, from its equity interest of 53.6 per cent<sup>117</sup>.

Clearly, accusations of BCL engaging in the excessive repatriation of profits cannot be sustained, however these figures give credence to the Bougainvilleans' discontent over the central government's retention of the bulk of mine generated revenue.

Regional dualism is an anticipated and unavoidable consequence of development in any subsistence economy, particularly when that development is rapid (Ronen, 1986). Bougainville was typical in this regard, however the problem may have been magnified by the fact that the development was concentrated in a small area. As discussed previously, the division caused by the creation of a 'monied class' on Bougainville was acute and multi-

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	<b>A\$ million</b>	<b>US\$ million</b>
Government of Papua New Guinea	1,490.33	1,268.27
Government of North Solomons Province	103.68	88.25
Landholders	33.18	28.24
Non-Government Shareholders	797.70	678.84
	<b>2,424.9</b>	<b>2,063.6</b>

<sup>117</sup> As PNG investors held 15.5 per cent of the non-Government equity (BCL Annual Report, 1973), the return to the PNG economy was larger than Carruthers and Vernon's figures indicate.

dimensional. To mitigate the effect of this, BCL paid the indigenous workforce at a lower rate than expatriates, but this did not solve the problem. It is difficult however, to envisage any other solutions which the mine's management might have offered to rectify the situation. The employment of Bougainvilleans at the exclusion of all other Niuginians (proposed above) would have improved the income of more islanders, but not in sufficient numbers to establish a commercial economy throughout the island.

From an alternative perspective, a past BCL manager pondered the wisdom of the company introducing elements of a market economy:

I think you need to question the Bougainvillean need for development. They were poor by our standards, but they were not deprived. The mine brought them benefits which a lot of them enjoyed, but they really did not need them. PNG wanted a commercial economy more than these islanders. Their lives had gone a long time without materialism; perhaps they were better off without it. They were not living in poverty ... their health, food and lifestyle was OK before the mine. The friction between the tribes was there, but seldom manifested itself because they did not have the facility or mobility to wage war on each other or anybody else. The infrastructure changed this... (Personal communication, 1998).

This argument holds merit from an ideological viewpoint, but it is doubtful whether management could have translated it into policy. For the company to leave the Bougainvillean economic system intact, it would have been necessary to isolate the mine completely from the island's affairs by paying all financial dues to the central government (including landowner compensation) and employing only Niuginians and expatriates. Even if such an approach was acceptable to Port Moresby, it seems reasonable to assume that the Bougainvilleans would have objected to having their land violated with no return to themselves.

### *Political Issues*

The generally weak emphasis on economic matters shown in Table 7.3 (discussed above) is in contrast with the political dimensions which display the highest overall ratings of all external factors. This may indicate that PNG's intransigence over royalties, compensation, and the like were driven more by political imperatives than by the actual income the country derived from the Panguna mine.

From its inception, the Panguna mine had been exposed to risks which might arise from the political environment. The potential of political unrest on Bougainville is reflected in various commentaries of the early 1970s when the

magnitude of the operation became evident. Illustrative of these are the observations of West and Turner:

The excavation, refining and shipping of [Bougainvillean] ore to the smelters of Japan could bring great profit over the next 20 years [but] there is a danger that arguments over ownership of the mine could cause political strife, even civil war, in this part of the South Pacific (West, 1972:109).

RTZ has centred its activities on a small Australian controlled island in the Pacific called Bougainville... [This] project is [not] likely to run up against insurmountable local objections, though it is interesting to note that part of the incipient nationalism in Papua New Guinea, of which Bougainville is a part, is turning against the company's mining activities (Turner, 1973:62).

Early concerns were also expressed by Griffin<sup>118</sup> who, in 1990, reminded the chairman of BCL of his (Griffin's) remarks 21 years earlier when the development of the mining complex had just commenced:

...in 1969 the serious issue of secession had emerged. You may remember that I said then that your company was in the wrong place at the wrong time and that, if the secession issue was not resolved before independence, grievances over mining could only aggravate and precipitate the issue in a way that would endanger the emergent state of Papua New Guinea. ...the company's mere presence made it a participant in this political imbroglio (Cited in Polomka, 1990:56).

While the mine's managers were aware of the possible political implications of the venture from the beginning, they do not seem to have been aware of the magnitude of the risk. Several factors appear to have contributed to this naïvety: encouragement by the Australian government and the PNG Administration to proceed with the mine (Carruthers<sup>119</sup>, cited in Polomka, 1990:56), PNG's assurances that it could control the situation on the island should problems arise (Past executive, Personal communication, 1998), management's perceived attentiveness to the Bougainvilleans' physical needs and cultural system (discussed in the preceding sections), BCL's benevolent local and national social policies (Quodling, 1991), a lack of understanding of the PNG political landscape (Past executive, Personal communication, 1998), and an under-estimation of antipathy between the islanders and the Niuginians (Past executive, Personal communication, 1998).

The evidence suggests that, although management's assessment of the mine's operating environment was well intentioned and broad in its scope, it did not access the submerged agendas or the subtleties of the national and local political arena. In explaining this situation, two factors appear to be most pertinent. Firstly, the initial appraisals of the external environment seems to have been

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<sup>118</sup> An academic widely published in the history of PNG (refer Appendix K).

<sup>119</sup> Refer to Appendix J.

deficient. The company relied primarily on the 'Grand Tour' approach (Rummel & Heenan, 1978). While the information gained by this method was valuable and formed the foundation of the mine's long period of successful operation, it seems to have been 'one-sided'. Because discussion during the prospecting and establishment phases was basically restricted to negotiations between the company and the PNG Administration, the Bougainvilleans' perspectives were either ignored or marginalised at the official level. Management tried to rectify this imbalance by entering into direct dialogue with the locals and engaging an anthropologist<sup>120</sup>, but their efforts were impeded by language barriers, cultural and historical influences, and, most importantly, the PNG Administration's refusal to recognise the Bougainvilleans' right to a 'voice'. The latter point effectively meant that any effort by management to come to suitable arrangements with the villagers would be in vain and therefore was possibly not worth pursuing to its ultimate conclusion. Secondly, it appears that BCL's management did not adequately monitor its external environment during the mine's operative years, especially concerning issues relating to the Bougainvillean people. This conclusion is drawn from a number of observations made by past executives during interviews in 1998:

In retrospect, [appointing a Bougainvillean as head of the Human Resources and Community Relations Department] was a big mistake and it was made out of ignorance because we figured a Bougainvillean would be the correct person to have there. What we did not realise was that this man came from ... the south ... and not from the Nasioi area where the mine is, and consequently any complaints that came to him through the Nasioi group he ignored because he had no feeling for them and hated them... I did not recognise this until after the whole thing blew up; I was always aware of the tension between the language groups on Bougainville, but I was not aware of the depth of their ill-feeling... it is now obvious that the only thing they agree on is the fact that they hate non-Bougainvilleans [and] hate each other almost as much. ...on one of my later trips there ... a priest ... told me that this Bougainvillean executive was not telling management the truth about what was going on. He was telling us only what he thought we wanted to hear.

[The 'Bougainville Initiative' letter] should have rung ... alarm bells and should have forced us to sit down [and] get to the bottom of the problem. One of the things I have learned about ... Papua New Guineans ... is that you cannot talk too much or listen too much. You need to talk and talk and talk and listen to what is really worrying them. We were more content to keep the operation running... rather than worrying about the feelings behind this letter...

[Concerning the K10 billion demand by PLA president Serero - refer Appendix L], we have since been told that on Bougainville, when the men are involved we need to worry, but if the women are involved you have a major problem. The fact that a woman wrote the letter is something that we should have reacted to immediately - although she had no authority, she was a senior woman...

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<sup>120</sup> The hiring of Oliver to advise on Bougainvillean ways is indicative of the 'Old hands' method of environmental evaluation (Rummel & Heenan, 1978). Oliver's perspectives were invaluable to the company in the early days, as informed knowledge of Bougainville was extremely sparse at that time.

What did the company not do right? Probably the biggest issue was a failure to recognise the inevitability of what happened. Had we have seen this, we might have done things a bit better. We had 20 years of reasonable stability, and did not see the importance of the few people that occasionally threw stones at us. We missed the fact that the younger people would not accept what the older generation had agreed to. There is probably a timing factor as well. There was a change in the management... There was no longer someone who they could talk to, who they knew... Maybe we should have prepared the locals more for these company changes...

The suggestion that Panguna's managers failed to recognise a number of fundamental characteristics and changing attitudes in their host society does not imply they lacked concern for, or interest in, the Bougainvilleans. To the contrary, management's ostensible inattention to these matters may be explained by the close working and interpersonal association between BCL personnel and the majority of the locals. Despite PNG's ongoing efforts to control the relationship between the company and its host society, the two parties had developed an essentially favourable disposition towards each other over 25 years. Through unofficial consultation and mutual agreement, they had come to satisfactory arrangements on many of the issues which had divided them initially. It is proposed that the passage of time and the generally harmonious climate led BCL's management into an unwarranted familiarity with the islanders. In effect, management had become too intimate with the Bougainvilleans which resulted in an assumption that the degree of assimilation between the two was greater than it actually was. While it cannot be claimed that management took the locals for granted, there are indications that the executives saw an unrealistic homogeneity between the company and the people which suggests they forgot BCL was a guest, rather than a native institution. In other words, management became so close to important factors in the external environment that it could not 'see' what was happening. As a result of this myopia, the mine's management was not able to address the political realities which were emerging and were virtually paralysed when the situation degenerated into open violence.

### **The Internal Environment**

It was anticipated that the 'Stage Two' analysis would reveal consistent similarities between the characteristics of management and the form of BCL's internal arrangements. Such an outcome is reflected in Table 7.3, which also shows a negligible association between parties outside BCL and the company's internal environment.

### *Convergence, Divergence and Crossvergence*

As noted earlier, the organisation of the mine was founded on a crossvergent approach to management which aimed to establish an operating system peculiar to the idiosyncrasies of its unique setting. Research indicates that this goal was generally achieved for a sustained period, and thus it may be concluded that BCL's management accomplished the high degree of environmental alignment advocated in the literature as essential to corporate performance (Bowden, 1985; Burns & Stalker, 1961; Davis *et al.*, 1987; Galbraith, 1974; Lawrence & Lorsch, 1967, Thompson, 1967). However, as discussed above, there are indications that management became too comfortable with the contextual fit which it had developed. In assuming that the fundamental divisions between the company and the majority of the Bougainvillians had substantially and permanently dissipated, management was prevented from appreciating the enduring nature of culture or recognising the changes occurring in the host society.

It is considered therefore, that while the adoption of a crossvergent system of management and organisation was appropriate in attaining environmental fit on Bougainville, the efficacy of the model decreased over time due to a lack of flexibility in its application. It appears that, because BCL had established a significant degree of integration with its surroundings by the mid-1970s, management saw no reason to change its approach in the ensuing years, and thus did not always respond appropriately to the emerging needs, goals and sentiments of the local people. Accordingly, the mine began to lose organisational fit with its surroundings. This development in Panguna's management sustains the 'complementary' view of fit and flexibility which proposes that:

...both concepts are essential for organizational effectiveness since the strategic management challenge is to cope with change (requiring flexibility) by continually adapting to achieve a fit between the firm and its external environment (Wright & Snell, 1998:757).

### *Management Philosophy*

A recurring theme which has emerged from this research is BCL's impeccable conduct as a corporate citizen. This is particularly evident in management's insistence that PNG should reap financial and social benefits from the mine's operation, and the company's strict adherence to PNG law. The research has also revealed that the pursuit of these goals was a contributing factor in the closure of the mine because it was these issues which were at the heart of much of the Bougainvilleans' discontent. As management was aware of the potential



dangers of this situation, it is necessary to determine why they elected to satisfy the government's demands rather than insisting on the passage of those legislative concessions required to ameliorate the Bougainvilleans' concerns.

The behaviour of the managers may be explained by (i) their fundamental beliefs and values concerning the role which BCL should occupy in PNG's economy and society, and (ii) their personal commitment to the rule of law. Concerning the former, the executives shared Espie's conviction that the benefits accruing from the Panguna operation to its hosts should be maximised. Because the mine was located within PNG territory, 'host', at the corporate level, was interpreted as host country rather than host society. Thus, the maximisation of benefits was perceived as spreading them as broadly as possible throughout the nation. While it has been determined that the executives had some personal misgivings about the long-term wisdom of this approach, several reasons may be advanced to explain their reticence in pushing for change. Firstly, the extent of the managers' doubts at the time of their incumbency is difficult to judge as these were not expressed until a decade after the fact<sup>121</sup>. It is possible that these feelings were somewhat vague or subconscious at the time, and therefore not potent enough to generate concrete actions. Secondly, the managers held a concept of 'nationhood' which was defined by the Western culture in which they were raised. Whereas the Australian perception of nationhood equates to some measure of social homogeneity and common good, this does not apply to PNG. Given this cultural conditioning, the managers construed BCL's responsibility to its host primarily in terms of benefits to PNG. From the perspective of Melanesian custom however, the company's obligations should have been accorded to the communities in which the mine operated. Thirdly, it is possible that a form of 'groupthink' may have prevailed in the management's dealings with PNG. This occurs when the dynamics of a cohesive group exert pressure toward conformity, even though individual members might have reservations about the group's decision. That is, there is an illusion of unanimity within the group which prevents dissent from surfacing (Janis, 1996).

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<sup>121</sup> During interviews with the researcher (1998), the former executives were unanimous in their assertion that both BCL and the Bougainvilleans would have been better served had management used the company's influence to ensure PNG responded to the locals' more significant demands. These sentiments do not appear to be documented in earlier records, however.

The unswerving observance of PNG's legal prescriptions by BCL managers may also have philosophical foundations. Whilst it may be argued that the executives' compliance with the law resulted from public expectations of MNE stewardship or the requirements of the UN Charter of Economic Rights and Duties of States to which Australia is a signatory, the researcher's observations offer an alternative explanation. In effect, BCL's managers governed an operation with sufficient economic power in PNG to enable them to challenge, or even disregard, those laws which might impair the mine's performance, yet this did not occur<sup>122</sup>. Whilst there can be no definitive evidence as to the managers' motivations for their strict adherence to the law, the insights which emerge from this study suggest that these men held firm personal beliefs about the intrinsic value of the law, recognised the obligations of MNEs to submit to host countries' legal codes, and/or possessed an inherent respect for the sovereign authority of an MNE's host government. Irrespective of these imputed motivations however, the managers' behaviour displayed a rigid pattern of ethics, and this pattern defined the essential nature of the relationship between BCL and its host.

Whereas it was proposed in the preceding section that management became so close to the Bougainvilleans that it forgot BCL was a guest on the island, the reverse appears to have occurred in the company's relationship with PNG. Conscious that BCL was a foreign company, the managers remained vigilant in their efforts to accommodate the requirements of PNG. This mindset of needing to meet the host's expectations seems to have inhibited the company's integration with the nation. Rather than giving BCL its due recognition as a central player in PNG's development, it appears that Port Moresby almost took the company for granted. It is plausible to contend that, had the mine's managers been less passive and more demanding of the government, BCL may have been regarded as a key partner in the nation's affairs and its needs given more consideration by PNG's political leadership and the parliament.

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<sup>122</sup> As noted in Chapter 5, the only allegation of illegal activity on the part of BCL was that of practising 'transfer pricing', and records show this to have been unfounded. During the writer's interviews with the former managers, no reference was made of BCL senior personnel consciously breaking any laws to achieve corporate goals, or of this ever having been considered as an option during the currency of the mine. It is possible that the informants may have withheld any such detail from the researcher, but this would have been inconsistent with the candour displayed by all participants.

### *Organisational Culture*

The case material reveals that BCL had a strong and rather intense organisational culture. The workforce, at all levels, generally shared a particular concept of the company's identity which it translated into a 'style' of corporate functioning. The influence of this identity, which was rooted in Espie's conscious ideals of the way in BCL should conduct itself, was pervading and enduring, and produced a uniformity of behaviour. This uniformity guided managerial actions and responses and, as previously described, the approach both helped and hindered the mine's operation.

Cultural leadership in BCL was focussed on maintaining the codes and values which were instituted in the early days, and which had served the organisation well for many years. In their efforts to sustain the internal *status quo* however, it appears that the Panguna executives did not give sufficient consideration to the changes which were gradually developing within the mine's broader environment. The necessity of allowing the culture to evolve was not seen and, over time, extant managerial approaches became less appropriate in dealing with the pressures emanating from external forces. As Bryman (1996:284) notes, organisational culture needs to develop in line with the company's emerging circumstances:

Leaders who follow in the founder's footsteps often see their role as maintaining and reinforcing the early culture. At a later stage in their development the distinctive cultures that were created might come to be seen as liabilities, as environmental realities change... Much of the New Leadership writing concentrates on situations in which the leader is confronted with a culture that is in need of change because it is out of tune with current realities or because the culture is a barrier to a change of strategic direction... Kotter and Heskett's (1992) quantitative study of the links between organizational culture and firms' performance led them to conclude that the really critical factor is that a culture is adaptive, that is, it seeks to anticipate and adapt to environmental change.

It is argued therefore, that most of the norms and standards which Espie envisaged for BCL were both suitable and efficacious for the greater period of the mine's life, but those which compelled the ongoing acceptance of PNG's deleterious expectations were, by the mid-1980s, out of alignment with the Bougainvillean community and therefore a potential threat to the company's future prosperity.

Determining the relative impact of each of the above influences on BCL's internal environment is difficult because it is not possible to draw clear distinctions between the impact which crossvergence, management philosophy and corporate culture had on the manner in which the mine was managed. Each

dimension was interrelated and affected by the others. Notwithstanding, it is evident that some combination of these factors resulted in a static approach to the management of the company which ultimately impeded its ability to sustain congruency with the wider environment.

### **The Involvement of BCL's Management in the Bougainville War of Secession**

The civil war on Bougainville is the touchstone of this inquiry. If peace had continued on the island, little public and academic scrutiny would have been afforded to the region in general and BCL in particular. Having analysed the motivations and actions of Panguna's management, consideration now turns to how these factors may have contributed to the Bougainville tragedy.

The outbreak of hostilities on Bougainville cannot be attributed to a particular episode. Neither was it the result of the conduct of an individual person or group, either indigenous or foreign. Equally, the war cannot be separated from the mining activities on the island. Whether the actions of BCL's senior personnel contributed the revolution is difficult to determine however, because the Panguna operation was enmeshed in Bougainville's place in world history, and the islanders' unique cultural and political past. Whereas there is little evidence in the case material to indicate that BCL or its management was a significant factor in the outbreak of hostilities, it is equally clear that the mine's presence was a central issue in the grievances which sparked the war.

The political and cultural biography which confronted the mine's managers was peculiar in the world. Whereas rapid 'Westernisation' was forced upon other countries settled during the period of European expansion, Bougainville and PNG were largely disregarded until the years following WWII. Even then, Australia's trusteeship was relatively brief and generally apathetic. In 1975, PNG's "independence [came] with a rush" (Dorney, 1990:48). In its haste to form a nation, Port Moresby and Canberra ignored the fragmentation of PNG society and "assumed that ethno-national aspirations would be homogenised with the declaration of independence" (Griffin, 1990b:74). The expected homogenisation did not occur however, and, as Hannett (1975:286–287) explains, resistance to national unity was especially resolute on Bougainville:

...at no time in Bougainville colonial history has any foreign power formally established its political sovereignty over us, nor have the Bougainvilleans ever ceded political sovereignty to any foreign nation... We have never liked nor accepted British rule; we have never liked nor accepted the Germans' rule; we have never liked nor accepted Japanese rule, and neither will we at this late stage like the Australian's rule, let alone New Guinea rule.

Clearly, the genesis of the Bougainvilleans' discontent predated the Panguna mine by some 70 years. To the villagers therefore, the mine was perceived as yet another intruder; an extension of illegitimate governments with which they had no affiliation, which they did not trust, and which held inexplicable rights to the land they held sacred.

Whether CRA was wise to proceed with the venture in the early 1960s is a moot point. Arguments as to the merits, or otherwise, of establishing the mine under the prevailing conditions are now immaterial. The fact remains that the mine was established and it became an integral element in the Bougainvilleans' struggle for independence.

Although various parties, after the event, accused BCL of causing the war<sup>123</sup>, the case history does not support such claims. Rather, the evidence suggests that the mine had a catalytic role in the tragedy; that is, its presence exacerbated extant feelings of discontent and injustice (Dorney, 1990; Oliver, 1991; Quodling, 1991). From a management perspective, the fundamental issue concerns whether the Bougainville revolution would have occurred had the mine's executives managed the operation differently. Those who are most intimate with the entire Bougainville situation hold abiding reservations as to whether *any* action on the part of BCL, its Australian parent, or its management would have changed the course of the island's history:

Because most of the discontent was underground, it is very hard to say what the company could have done to avoid the closure. Maybe it could have foreseen the problems or maybe there was something which it could have done, but I don't know what (Former BCL executive, Personal communication, 1998).

The inevitability of the revolt was not seen [by BCL management], but what we would have done had we have recognised it, I'm not too sure (Former BCL executive, Personal communication, 1998).

...the mine may have been able to do things differently but what happened would have happened sooner or later. It may have happened sooner if the mine had not been so well managed, it may have happened later if they had done an even better job. Ultimately, the mine's closure was inevitable... Eventually, the situation would have blown up anyway. It may have taken another 150 years, or 50 years, but sooner or later, I believe that the Bougainvilleans want to be a separate group of people (Former resident of Bougainville, Personal communication, 1998).

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<sup>123</sup> Reflecting on the blame which was attached to the mine after the outbreak of the war, a past BCL executive advised that "...when the whole thing blew up [the PNG government] had to find a scapegoat and who better to blame than the company? The whole country ended up blaming Bougainville Copper for the situation, even other mining operations – Porgira, Ok Tedi, you name it. The government...blamed us almost entirely for the trouble. They refused to accept any of the responsibility for themselves" (Personal communication, 1998). The PNG government was not alone in this indictment. Others who denounced BCL for the causing the revolution included social commentators, journalists, and a number of Bougainvilleans.

It is contended therefore, that while the BCL managers may have been able to delay the war, they could not have averted it. Throughout the history of the Panguna mine there is a persistent atmosphere of inevitability about the events which came to pass. The venture was surrounded by a plethora of diverse and uncontrollable variables: a proud people who had endured prolonged political and military occupation; an LDC divided by cultures, ideologies and politics which was trying to achieve nationhood; an island population bound by narrow parochial horizons and struggling with the changing perspectives of a rising generation; ecological damage to a pristine and spiritually significant environment; the disintegration of cultural traditions; and the collision of Western capitalism with subsistence socialism. Given these conditions, it is difficult to sustain an argument that, in the long term, the mine's management could have had a significant influence on Bougainville's destiny.

### **Summary**

This analysis of BCL's management and organisation indicates that a number of managerial actions and omissions may have augmented the Bougainvilleans' enduring grievances, and intensified the latent discontent which was evolving in certain sectors of the population during the 1980s. Of particular significance was management's reluctance to insist that Port Moresby include the Bougainvilleans in negotiations concerning the mine's operations, return more revenue to the island, control the migration of Niuginians, and redefine the distribution of compensation among the villagers. Further, tensions would have eased if the executives had implemented an employment policy which restricted indigenous labour to Bougainvilleans. Management's reticence in addressing these issues turned on two factors: an adherence to Espie's original vision of the mine's role in the development of the entire nation, and a failure to monitor the changing external environment – particularly the emerging attitudes of the local people.

The result of these oversights was a gradual, almost imperceptible, loss of alignment between BCL's internal and external constituents which, in turn, accelerated the Bougainvilleans' push for secession. Had management pressured PNG for legislative reform and revised its employment practices, the war may not have erupted at that time and BCL's tenure on the island would have been extended. While it is unlikely that these actions would have diminished the Bougainvilleans' desire for freedom from PNG, it would have communicated the commitment which the mine's managers genuinely held towards the island and its people, and may have reduced the locals' sense of

urgency for secession. With more time, and in a less emotional atmosphere, it is possible that PNG and Bougainville might have reached a negotiated settlement on the island's autonomy.

Had a politically acceptable and peaceful transition to independence occurred, it remains difficult to predict the fate of BCL however. While the mine may have continued under the existing ownership structure (or perhaps as a joint venture between the locals and BCL), it is possible that the Bougainvilleans may have expelled the company at a future time in order to operate the mine themselves.

### **THE MANAGEMENT AND ORGANISATION OF BOUGAINVILLE COPPER LIMITED: THEORETICAL CONSIDERATIONS**

The management and organisation of BCL is now examined in terms of the four organisational models presented in Chapter 2. This discussion seeks to locate the foregoing analysis of the management of BCL within appropriate theoretical frameworks, and to provide support for the resolution of the central research question in Chapter 8.

The importance which management attached to meeting the aspirations and needs of BCL's two hosts reflects *institutionalisation theory*, which postulates that because an organisation is a "product of social needs and pressures", it becomes a "responsive, adaptive organism" (Zucker, 1988:5). In this model, firms are seen to pursue legitimacy through developing similarities with their institutional environment, and in so doing tend to abandon the technical rationality which underpins traditional organisational processes and structures. Of DiMaggio and Powell's (1983) three sources of pressure for similarity, coercive isomorphism appears to be the most relevant in explaining various aspects of the management of the Panguna mine. Coercive isomorphism

results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Such pressures may be felt as a force, as persuasion, or as invitations to join in collusion. In some circumstances, organizational change is a direct response to government mandate... (DiMaggio & Powell, 1983:150).

In its efforts to secure legitimacy with both the PNG government and the Bougainvillean people, the management of BCL often ignored the dictates of commercial and managerial logic. This behaviour is indicated by the executives' passive acceptance of PNG's more deleterious demands on the company and the costs they incurred in assisting the Bougainvilleans in social and economic

terms. This conclusion does not imply however, that such actions were solely the result of coercion (either overt or covert) from external entities; this inquiry has consistently revealed that management possessed an inherent belief that the company should operate in the best interests of PNG and Bougainville. It is suggested therefore, that management behaviour was an amalgam of the need to attain corporate legitimacy from the external environment (reflecting the tenets of institutionalisation theory), and an innate belief that BCL, as a foreign guest, should act responsibly in all its dealings and philanthropically towards its hosts (reflecting the personal convictions of the managers and the culture which prevailed in BCL).

It could be further argued that, in the company's early years, Espie adopted mimetic isomorphism, as he closely examined mining operations in other LDCs in order to determine their approach to operating in uncertain environments. His motives differed from DiMaggio and Powell's (1983) emphasis on imitating the patterns of successful organisations however, as he sought to understand 'what went wrong' with mining ventures in emerging economies.

Contending that organisations depend on positive selection from within their population on the basis of fit between themselves and the characteristics of the environment, *population ecology theory* (PET) proposes that organisations survive by reactive adaption and that management cannot substantially affect organisational outcomes (Aldrich, 1979; Hannan & Freeman, 1977; Reed, 1996). As this study has revealed that the closure of the Panguna mine ultimately resulted from factors beyond management's control, PET assists in explaining the company's failure. Absolute acceptance of this model is not feasible however, because its focus on organisational populations neglects other contextual factors in which BCL was immersed. The relevance of environmental determinism theories to the BCL case is amplified in Chapter 8. Furthermore, the applicability of PET can only be assumed from the facts of the case. As noted in the preceding section, it is possible that, had the executives taken a stronger stance with PNG, the Bougainvilleans might have pursued a more gradual approach to achieving independence, thereby prolonging BCL's operations. Notwithstanding, Bougainvillean independence would not have guaranteed BCL's tenure as eventually the island's fragmented social structure and internal politics may well have expelled the company. In this case, the basic concepts of PET would also be relevant.



The central theme of *resource dependence theory* concerns organisations' relationships with those contextual factors on which they depend. Taking an opposing view to population ecology theory, this paradigm recognises management's ability to mitigate the effects of environmental influences on organisations, and thus proposes that management should take an active role in ensuring that the terms of organisation–environment exchanges minimise the firm's external dependence (Child, 1997; Pfeffer & Salancik, 1978). BCL's dependence on its environment was profound. The mine was bound to its location by virtue of the position of the ore body, and this, in turn, made the company's survival conditional to the ongoing support of the Bougainvilleans and PNG. Management was aware of this dependence, yet made few concrete efforts to improve BCL's bargaining position through the exercise of power, preferring instead to maintain the *status quo* by attempting to satisfy the demands of the institutional and social arrangements of both PNG and Bougainville. Had external dependence been reduced by management demanding legislative change, BCL's survival *may* have been prolonged, at least in the short term. Evidence suggests however, that many of the mine's contextual factors could not have been significantly influenced by the company's management (or any other non-Bougainvillean entity), therefore resource dependence theory is not deemed to be applicable to the governance of BCL.

The *resource-based view* contends that corporate performance is contingent upon the characteristics and deployment of a firm's organisational capabilities (Barney, 1991). Investigation of BCL's three significant organisational dimensions (degree of crossvergence, management philosophy, and organisational culture) indicates that each approximated three of Barney's (1991) four criteria; they were unique, inimitable and had no substitutes. It is contended that these characteristics were vital components in the success and longevity of the Panguna mine. Management philosophy and organisational culture however, inhibited the maximisation of opportunities and the minimisation of threats within the environment; factors which appear to have contributed to the ultimate demise of the operation. Accordingly, it is considered that the resource-based view accounts for BCL's performance in both the short and long term.

A review of four organisational models has revealed that the management and organisation of BCL aligns with particular elements of institutionalisation theory, population ecology theory, resource dependence theory, and the resource-based view of organisations. While each of these explain various

aspects of BCL's stewardship and operation during its tenure on Bougainville, the enforced closure of the mine after 17 years of production lends most support to population ecology theory. In advocating PET, Baum (1996:78) does not dismiss management's influence in organisations, but warns:

...under conditions of uncertainty there are severe constraints on the ability of individuals to conceive and implement correctly changes that improve organizational success and survival chances...there are limits on the influence of individuals' actions for variability in organizational properties.

BCL was eventually overtaken by forces beyond the control of management, and thus the survival of the company was not possible.

## CHAPTER SUMMARY

This chapter has presented the results of the case analysis. In order to set the contextual framework in which BCL operated, the broad characteristics of the company, PNG and Bougainville were summarised. The diversity, instability and complexity of the host country and the host society were considered, and the potential problems for MNEs involved with two incompatible hosts were canvassed.

BCL's external environment was discussed with reference to the impact which its legal, cultural, economic and political milieu had on operations. The influence of each of these elements was found to be significant and, in relation to some issues, potentially harmful. Matters of particular concern included PNG's refusal to acknowledge Bougainvilleans' rights regarding the presence and operation of the mine, the ethnic divisions among the island communities, the incompatibility of PNG laws with Bougainvillean society, changing cultural and economic traditions, the influx of Niuginians to the Panguna region, and environmental degradation. An examination of the internal environment indicated that the management of BCL attempted to balance the needs of the company with the needs of both PNG and the Bougainvillean people. This integrative approach proved to be generally successful for many years, and was based on a corporate culture of inclusion, equity and national development. This culture stemmed from the mine's founder, and its continuation may be attributed to successive leaders who held a strong personal commitment to similar ideologies.

The management of BCL was investigated in relation to those external and internal elements noted above. It was proposed that a number of managerial

behaviours may have contributed to the gradual decline of the environmental balance which had been established. The managerial issues deemed to have been of significance were an excessive commitment to the development of PNG *vis-a-vis* Bougainville, a persistent reluctance to exercise the company's potential influence to force legislative change, the hiring of non-Bougainvillean indigenous labour, and a failure to recognise the nature and extent of the unrest emerging among the islanders. The latter issue may be explained by Wright and Snell's (1998) hypothesis concerning the complementary nature of organisational fit and flexibility. BCL's management seemed to become complacent about its strong relationship with the locals, and this may have obscured the need for ongoing monitoring of the realities of that relationship. The former issues emanate from the managers' collective and individual perceptions about the mine's role in PNG's affairs, and the organisational culture which appears to have been static rather than adaptive.

No evidence was found to support claims that the manner in which the mine was managed contributed to the Bougainville revolution. The case material does indicate however, that the presence of the mine may have accelerated the push for secession, and thus hastened the outbreak of war. The Bougainvilleans' bid for independence was inevitable, and the mine seems to have provided a focus for the peoples' discontent. Based on the case history, it is argued that BCL's management may have delayed demands for secession by being firmer in its attempts to extract concessions from PNG. This action would have alleviated many of the Bougainvilleans' immediate concerns, thereby providing time for designing a peaceful transition to self determination. The practicality of this proposition is unclear however. It is unlikely that PNG would have been prepared to negotiate on Bougainville's independence at this time, in which case war would have been unavoidable. As for BCL, independence on Bougainville would not have necessarily meant the long-term survival of the company.

The application of theoretical models to BCL's management and organisation revealed that elements of population ecology theory provide the most plausible explanation of the company's failure. The nature and interrelationships of the mine's legal, cultural, economic and political environments were such that BCL's expulsion was virtually inevitable. In effect, the fundamental dilemma which always faced the mine's management was not what might happen *if* the company was forced to leave, but what might happen *when* it was forced to leave. Had this been recognised earlier, management may have been in a

position to plan for the orderly closure of the operation or to hand it over to the Bougainvilleans. It is argued therefore, that while BCL's executives may have been able to delay the mine's closure, the ultimate fate of the company was beyond their control. Various dimensions of other organisation theories are also evident. The company's pursuit of legitimacy in its relationship with PNG and Bougainville may be attributed to institutionalisation theory, the resource-based view exposes the strengths and weaknesses of the organisation's internal properties, and resource dependence theory underpins the suggestion that, by being more assertive, management may have been able to create an opportunity for Bougainville to negotiate independence with PNG, thereby extending BCL's operations on the island.

The outcomes of the analysis presented above form the basis of Chapter 8, in which the research questions are considered and the implications of the study are discussed.

## **CHAPTER 8**

### **DISCUSSION AND CONCLUSION**

#### **OBJECTIVES OF THE CHAPTER**

This chapter concludes the thesis by reporting the principal outcomes and implications of the research. Commencing with a review of the thesis, the chapter builds on the findings of the case study analysis presented in Chapter 7 by addressing each of the subordinate research questions in turn. From these, the central research question is resolved and the conclusions of the study are discussed. The implications of the research are then noted; these relate to government policy development in Australia and PNG, management practice in MNEs, theory development and further research. The chapter closes with a report of the limitations of the research.

#### **REVIEW OF THE THESIS**

The principal objective of this study was to extend current understanding of MNE management in environments which are substantially different to those present in the organisation's home country. Bougainville Copper Limited, located in PNG's North Solomons Province, was investigated in order to analyse and explain the management of an Australian company which operated in a developing economy in Oceania.

The context of the study was established in the literature review (Chapter 2), which focused on four principal areas: the nature and development of MNEs and international management, the influence of external and internal variables on MNE management and corporate performance, current discourse on organisational–environmental alignment, and the management of MNEs in the volatile operating climate of LDCs. Models depicting the impact which diverging home–host business conditions may have on environmental congruency were then presented. The chapter concluded by specifying the central and subordinate research questions. Based on the thesis objectives and the literature review, these questions guide the case analysis.

Chapter 3 detailed the research design and methodology. A single case study method was adopted as this approach meets the descriptive, exploratory and explanatory aims of the research (Eisenhardt, 1989; Yin, 1994). Further, the

design flexibility of case studies enabled the researcher to access the complexity and meaning of real-life phenomena in an holistic manner, and to achieve multiple research goals through a combination of inductive and deductive processes (Hakim, 1987; Williamson *et al.*, 1977; Yin, 1994). The BCL case provided a unique opportunity to examine the history of a large MNE from its inception to its closure. Unlike extant operations which are dynamic and evolving, BCL presented a static model which allowed for the investigation of a complete sequence of events in the management of an MNE operating in a developing economy. As the experience of BCL has no direct contextual or organisational parallels, researching the company precludes a comparative approach (Eisenhardt, 1989) or attempts at replication (Miles & Huberman, 1994), rather it adheres to Yin's (1994:39) rationale for a single case design where "the case represents an extreme or unique case".

Acknowledging criticisms of the methodology's perceived shortcomings (Guba & Lincoln, 1981; Hamel *et al.*, 1993; Osborne, 1991), the rigour of the research was maintained by careful design and the development of a protocol. Construct and internal validity were achieved by the use of various procedures as suggested by Hakim (1987), Janesick (1994), Miles and Huberman (1994), Neck *et al.* (1996), Sowden and Keeves (1988), and Yin (1994). External validity was not an issue as no claims are made as to the universal applicability of the results of the study; as Barnard *et al.* (1987) and Yin (1994) advise, case studies are undertaken to generalise findings to theory rather than to generalise findings to populations. Although the collection of direct data was limited, through necessity, to a small number of respondents, this did not weaken the research effort. The informants had intimate knowledge of BCL and its environment and, as Patton (1990:185) reports, "the validity, meaningfulness and insights generated from qualitative research have more to do with the information richness ... than with sample size".

The case report was presented in Chapters 4, 5 and 6. This was augmented by transcripts of the respondent interviews, which are recorded in Appendix V. Chapter 4 outlined the natural, human and political environment which confronted the management of the Bougainville copper venture. Chapter 5 presented the history of BCL, commencing with prospecting in 1963 and concluding with the mine's closure in 1989. This chapter described in detail the manner in which the company and its environment were managed during BCL's tenure on the island. Chapter 6 examined the Bougainville civil war and the events which precipitated it, reviewed the reactions of PNG, Australia and

the world community to the crisis, and considered the effects of the war on the various stakeholders. The chronological progression of these chapters enabled the researcher to construct a logical chain of evidence, as recommended by Sowden and Keeves (1988) and Miles and Huberman (1994). The interview transcripts appearing in Appendix V represent the direct data collected for this research. This information, gathered from four respondents in June 1998, serves three purposes: to validate the indirect data which constitutes the narrative presented in Chapters 4, 5, and 6; to gain an understanding of the Bougainvillean people and the mine executives' experiences in managing the Panguna project; and to access fine-grained detail of all aspects of the case.

The analysis of the case is presented in Chapter 7. Here, elements of BCL's external and internal environments were investigated according to the literature review, and the company's management and organisation was examined in the light of the organisational models presented in Chapter 2. It was determined that the company's external environment had a significant impact on the operation and, although the mine's executives may have been able to address a number of marginal issues, the fate of the venture was ultimately beyond the control of management. This finding largely supports population ecology theory which, in contrast to theories advocating organisation-environment fit, contends that organisations may be subject to extraneous forces which greatly restrict management's capacity to influence organisational outcomes. In considering the involvement of BCL in the Bougainville revolution, this chapter concluded that no direct responsibility for the war may be attached to the company or the manner in which it was managed, however the mine's presence and a number of management actions appeared to have had a catalytic effect which may have accelerated the islanders' bid for separation from PNG.

## ANALYSIS OF THE RESEARCH QUESTIONS

In this section, the findings of Chapter 7 are applied to the research questions established for this thesis. The research questions relate to both the exploratory and explanatory purposes of the study. The central research question for this thesis is:

*In what ways might the experience of Bougainville Copper Limited be instructive to the study and practice of MNE management in environments which are significantly different to home country conditions?*

This question will be addressed by investigating, in turn, the seven subordinate questions which arise from it.

### **Research Question 1**

The literature review concluded that MNE performance depends, in large part, on a high degree of congruency between organisations' internal operations and the external environment. Because the central theme of environmental congruency rests on the complementary nature of organisations' internal and external relationships, the management of MNEs must (i) devise and effect organisational components and management practices which are appropriate to the needs and wants of the company's operating milieu, and (ii) exert influence on external entities so as to ensure that the wider environment is appropriate to the needs and wants of the company (Bowden, 1985; Burns & Stalker, 1961; Davis *et al.*, 1987; Galbraith, 1974; Lawrence & Lorsch, 1967; Milliman *et al.*, 1991; Thompson, 1967). Further, exploration of various organisation theories revealed that the nature of the relationship between organisations and their environments may be explained from several perspectives (Aldrich, 1979; Barney & Hesterley, 1996; Child, 1997; DiMaggio & Powell, 1983; Hannan & Freeman, 1977; Meyer & Rowan, 1977; Pfeffer & Salancik, 1978; Scott, 1987; Selznick, 1957; Williamson, 1975; Zucker, 1988). An additional view, advanced by Boxall (1992), Lengnick-Hall and Lengnick-Hall (1988) and Wright and Snell (1998), proposes that environmental congruency must be accompanied by organisational flexibility. These arguments however, rely on the assumption that MNE management is capable of manipulating corporate environments (both internal and external) sufficiently to achieve contextual alignment and organisational flexibility. The two parts of the first research question examine this issue in the light of evidence from the BCL case.

#### **Research Question 1a**

*To what extent were elements of the internal operating environment of Bougainville Copper Limited (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's external operating environment (i.e. legal, cultural, economic and political factors)?*



### *Convergence, Divergence and Crossvergence*

The BCL executives engaged a crossvergent approach to management through which they sought to provide the company with a unique value system which integrated corporate needs with the requirements of the host country and the host society. In concept, this method of organisation appears to have been appropriate for the mine's environment and, in practice, it proved to be largely efficacious for many years. Nonetheless, BCL was not able to maintain its synergy with a number of fundamental environmental elements in the long term, suggesting that management did not sustain the emic-etic balance required for ongoing performance.

At the macro-level of internal operations, the managers' most significant problem was their inability to modify the basic functioning of the company. Processually, the technology of large-scale mining is invariable and results in ecological degradation. Although management was cognisant of the cultural and environmental implications of this damage, in practical terms there was little that could be done apart from restricting the area affected by the release of tailings. The difficulties of controlling the mine's ecological impact is explained by former BCL executives:

We did our best to minimise the damage by using only one river system, and the material that was deposited in the river was in an uninhabited area so it did not affect the local people very much (Personal communication, 1998).

It is hard to say if we could have handled [the disposal of tailings] differently... conventional tailings dams could not be built. There were no natural structures there to support a dam because it was so flat and swampy. It could have been done by building up walls around an area and filling it... but because of the tonnage we were treating, we would have had to either build that over an extremely large area (kilometres in distance), or build it up very high. The large area option would have damaged a huge amount of land. If we had a small area high wall dam, because of the high rainfall it would never have dried out properly and because of the frequent earth tremors, the whole thing may have collapsed. If that happened, there would be this enormous tonnage of material spreading uncontrolled over a vast area, probably killing people. It was too dangerous to have dams<sup>124</sup>... [The tailings area] was certainly an unsightly mess [but] in terms of the area affected compared with the island, it was very small (Personal communication, 1998).

As well as being constrained by technology, the mine's operation was bound to traditional management and organisational systems. Being a commercial enterprise, the executives were obliged to observe the universal tenets of functional administration which form the basis of organisational structure, leadership, decision making, profit generation, and so forth (Farmer &

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<sup>124</sup> The hazards of tailings dams were highlighted on 30 January 2000, when heavy rain caused the wall of a tailings dam in Sasa, Romania to partially collapse. The escaping water, contaminated with cyanide (used in gold processing), polluted rivers in Romania, Hungary and Yugoslavia.

Richman, 1965; Hickson *et al.*, 1974). For example, the financial imperatives which management faced are evident in the recollections of former senior personnel:

As our ability to mine lower grade ore economically increased, the size of the ore body increased automatically. So in doing that, some of the things we did was to build a sorting plant, we commissioned an in-pit conveyor system, and increased the capacity of some trucks... All these improvements allowed us to make the original pit bigger... so we could mine economically those grades of material that had previously been classified as waste... As long as the company stayed within the lower quartile of world mining costs, it would come out in front (Personal communication, 1998).

[BCL] really could not afford to be spending any more money than it already was on the local people; it was unreasonable to expect the company and its shareholders to foot the bill for everything the people wanted when it was the government's job. There had to be a limit (Personal communication, 1998).

Thus, in processual and administrative terms, BCL's management had no choice but to conform with the standardised practices required by the economic and technological realities of the global market economy in which the mine operated. This aspect of BCL's operations reflects convergence theory as espoused by Harbison and Myers (1959), Kerr *et al.* (1960), Haire *et al.* (1966), Likert (1967), Widing (1973) and Wortzel (1991).

At the micro-level, BCL's executives had significantly more discretion in their approach to managing the company and, within the restrictions noted above, they devised policies and customs which strove to accommodate the needs and aspirations of the Bougainvillean and PNG cultures (refer Chapter 5). From the analysis in Chapter 7, it is clear that the spirit behind this emic perspective was Sir Frank Espie's insight and sensitivity; a quality which would permeate the company's culture throughout its operational years. Accordingly, BCL incorporated divergent management strategies to account for the cultural influences present in its environment (Child, 1981; Hofstede, 1987; Laurent, 1986; McGaughey & De Cieri, 1999; Oberg, 1963). On this issue, a past executive noted that

...the human relations aspect of the Bougainville operation was by far the most significant single side of management responsibilities, because of its social limitations and because it was an offshore operation. By human relations, I don't just mean the workforce, I mean the entire population of the island. It was always a very significant part of the management goal. The digging of dirt and shovelling of concentrate was fairly simple... but from a management point of view, you must concentrate on the community, the political, the workforce and those types of aspects (Personal communication, 1998).

It was this blend of convergent and divergent practices which gave rise to BCL's crossvergent management system which was, at the time, unique among multinational mining companies. Although this approach corresponds with theories

advocated by Ralston *et al.* (1993) and Ralston *et al.* (1997) and remained generally effective for a long period, the failure of BCL indicates that the system was deficient in some respect. The case evidence suggests that, while the concept was correct, its application was flawed. It appears that management was unable to maintain the cultural integration which it had established. Given the abstract nature of culture however, it is difficult to identify those specific aspects of the operation which 'lost' congruence with its milieu. After a decade of reflection, the past managers of BCL were able to offer some suggestions as to where they may have erred in some areas but, by their own admission, their conclusions are speculative. As one respondent noted, "...there was nothing that could have been done a lot differently other than not open the mine" (Personal communication, 1988).

It is significant that the former executives of BCL remain perplexed about how they might have changed their approach to managing the mine. Their uncertainty echoes the questions raised by Teagarden and Von Glinow (noted in Chapter 2) concerning the difficulties of specifying appropriate elements in the emic-etic debate. These questions are:

...which dimensions of...management can or should be generalized in cross-cultural settings? Which are or should be locally-specific? Which are or should be company specific, having been integrated into the fabric of the business strategy supported by a strong, idiosyncratic corporate culture? Which emic or culturally-bound challenges inhibit generalizability (Laurent 1983, 1986; Hofstede, 1983, 1984, 1991; Hofstede [and] Bond 1988; Schneider 1988)? Finally, are there etic or universal, culture-free resolutions to these challenges? (1997:11).

Because the choice of management approach rested with the mine's executives, it may be claimed that the convergence-divergence-crossvergence constituent of BCL's internal environment was under their control. This control is illusory however, because the complex environmental issues attendant to the cross-vergent model precluded the clear identification of which particular elements needed to be addressed. It is argued therefore, that effective manipulation by management of this organisational dimension was not possible.

### *Management Philosophy*

It was reported in Chapter 2 that the philosophies held by key executives are major determinants of the manner in which they manage companies and make decisions, and therefore these philosophies provide an essential link between organisations and the wider environment (Bigelow, 1994; Erez, 1986; Fatehi, 1996; Hibbert, 1997; Negandhi & Prasad, 1971). Because management's convictions direct an organisation's actions in its dealings with objects and

events relevant to the company, any significant ideological shift by management will inevitably lead to changes in corporate behaviour. This cause and effect relationship suggests that, for BCL to have operated differently, a prior change in management philosophy would have been necessary.

As discussed in Chapter 7, many of the decisions taken by the mine's managers were based on (i) their perspectives of what was, and was not, appropriate corporate behaviour in a foreign country, and (ii) their regard for the authority of the PNG government and the prevailing legal system. The case material indicates that, despite reservations about the long term effects of deferring to the government and legal conformity, the managers consistently acted with propriety in their stewardship of the company. It is considered that the executives' concern for their personal integrity and that of BCL is an indicator of the nature and depth of the values, beliefs and attitudes they held in regard to the execution of their duties.

The managers' convictions about their behaviour abide to the present day. After a decade of deliberation on their actions and the subsequent events on Bougainville, they retain the view that compliance with the host country's wishes was appropriate in the circumstances. They reported variously during personal communication (1998):

...we saw Port Moresby as our chief area of control and they were the people who made the laws for the country. And so whatever we did, we had to do with their approval. If we had their approval, then it was legally acceptable and correct and we were able to do it.

Our negotiations were with the central government, which was right and proper.

...the mine had no choice but to rely on the government ... it was bound by the rules and regulations of PNG.

The profundity of the executives' views may be inferred from these comments; their decisions were driven by an inherent philosophy of what was 'right' and 'wrong' for BCL as a guest of PNG.

It may be construed that the former managers' enduring belief in their actions conflict with other elements of their interviews with the researcher, as they also pondered whether the interests of BCL and the Bougainvilleans may have been better served had they demanded change from the central government. These latter observations however, do not testify to the executives' true feelings on the matter; they represent a reflective search for possible alternatives to the manner

in which they managed the mine, and coercive behaviour was not contemplated during their tenure.

A further insight into the managers' personal ideologies is gained from the quality of their relationship with the Bougainvillean people. A recurrent theme emerging from the data analysis is the executives' unanimous respect and empathy for the islanders. This point was articulated by BCL's founder:

Although the management styles of the executives differed, I believe we all had a common concern for the welfare of the locals... it is fair to say that throughout the years of the mine's operation we were always sensitive to the people whose land we were using (Personal communication, 1998).

When interviewing the former managers, it was clear to the researcher that their positive disposition towards the Bougainvilleans was native to their psyche. Each respondent retains an enduring and genuine affection for the island's people<sup>125</sup>, and it is contended that this innate regard for the Bougainvilleans was the primary motivation for many of BCL's innovative social and economic policies.

From the above, it is deemed that the philosophies held by the BCL executives constituted an intangible, yet fundamental, element of the manner in which the Panguna mine operated. It is reasoned that these philosophies formed the reality of the executives' managerial role as they perceived it at that time and in the given circumstances, and they were innate and immutable. In this case study therefore, it is considered that the 'management philosophy' dimension of the internal environment was resistant to significant variation.

### *Organisational Culture*

It has been established that BCL had a strong organisational culture which was based on Espie's original vision for the company and this was perpetuated, largely intact, by subsequent managers. The case material suggests that, while this culture originally suited the mine's operating environment, its appropriateness may have declined in the 1980s as it failed to align with the changing conditions on Bougainville. Consideration now turns to whether it would have been possible to amend this culture to sustain BCL's environmental fit.

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<sup>125</sup> Empirical evidence for this observation is not available, rather it rests on the interpretive process associated with ethnographic inquiry wherein the researcher seeks the meaning which people attach to their behaviour, language, social connections, and the like (refer Chapter 3).

Perhaps the most influential factor in BCL's culture was the set of philosophies which guided senior personnel in their administration of the company. As discussed above, the managers' principles and convictions were deeply ingrained and therefore it is doubtful whether they would have been prepared to make any fundamental changes in their stewardship of the mine. Because corporate culture is strongly influenced by management philosophies (Laurent, 1986; Redding & Ng, cited in Fuller & Peterson, 1992), it appears unlikely that significant variations to BCL's culture would have been possible without replacing key executives.

A prerequisite to any change is a recognition of the need for that change. The management of BCL may have been able to adjust the company's culture to better fit the local environment had they been aware of the Bougainvilleans' growing discontent with the mine and the changes it had brought to the island. It was noted in Chapter 7 that management remained oblivious to many of these fundamental tensions. This point was emphasised by a past executive:

I think the reasons things went so wrong was that we were not able to foresee the forces that were building up. There was no indication from the local people of the feelings that were going on under the surface... it seems that the seriousness of the situation was not really evident until the power pylons were blown up (Personal communication, 1998).

Management's lack of perspicacity in this matter has been attributed to their assumption that the assimilation between BCL and the Bougainvilleans was greater than it actually was, and this perceived intimacy 'blinded' management to the realities of the situation (refer Chapter 7). Accordingly, the need for any change in BCL's culture was not recognised.

Whilst it is argued that the above issues represent the primary impediments to changing BCL's culture, it cannot be assumed that, in the absence of these two factors, significant changes in the company's dealings with external parties would have been beneficial or advisable. The potential dangers of extreme shifts in the manner in which the mine was managed (attempting to force legislative change, curtailing local social or economic programs, excluding Niuginians from the workforce, etc.) have been considered elsewhere. Further, as the former executives report, local dissatisfaction with the company or the mine was far from universal:

It seems to me that the revolution was the result of a discontented minority rather than the way most people thought (Personal communication, 1998).

The mine was really seen as a benefactor, but not by all. Gone were the days when everyone clapped with glee because the mine was there, but most people valued its input to the island (Personal communication, 1998).

Everybody who made demands on us - Momis, Kabui, Serero [refer Appendix L] and a couple of others - they weren't the recognised body representing the landowners. They were some offshoot (Personal communication, 1998).

I think most of the native population were pretty happy... (Personal communication, 1998).

Had management changed its approach to meet the demands of a minority, those Bougainvilleans who were content with the operation would have had genuine cause for complaint. Such a move would have risked the company's good relationship with the majority of the locals.

As stated in Chapter 2, an organisation's culture determines the manner in which it operates. BCL operated according to a set of enduring principles which, although initially amenable to the mine's surroundings, appeared to lose external focus over time. Thus the company's culture is considered to have been somewhat rigid, and not conforming with proposals that organisations need flexibility in their transactions with the environment (Boxall, 1992; Lengnick-Hall & Lengnick-Hall, 1988; Wright & Snell, 1998). The above-mentioned factors however, militated against the management of BCL establishing a flexible corporate culture.

The extent to which management was able to manipulate the internal operating environment of BCL in the pursuit of attaining congruity with the company's external operating environment was examined in Research Question 1a. Of the three internal dimensions reviewed, this research suggests that corporate culture was the most open to orchestrated change, but this was severely circumscribed by entrenched ideologies and the inability of the executives to recognise the almost imperceptible shifts taking place in Bougainvillean society. The philosophies held by the executives are considered laudable from both humanitarian and managerial perspectives, yet paradoxically these characteristics restricted opportunities for substantial organisational adjustment. Balancing emic and etic influences in BCL's management strategy proved impossible due to the subtle and elusive nature of many factors inherent in the Bougainvillean culture. It is argued therefore, that while some opportunity existed for management to modify BCL's internal operating environment, a number of endogenous and exogenous circumstances limited any radical changes which may have resulted in greater environmental congruity.

### Research Question 1b

*To what extent were elements of the external operating environment of Bougainville Copper Limited (i.e. legal, cultural, economic and political factors) able to be manipulated by BCL management in the pursuit of attaining congruity with elements of the company's internal operating environment (i.e. the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture)?*

#### *The Legal Environment*

The Bougainvilleans' resentment of many aspects of PNG's legal system remained a primary concern for BCL's executives. This concern had two origins. At a personal level, the managers recognised the inequities of the laws, and empathised with the Bougainvilleans' perceptions of marginalisation and neglect. At a professional level, they understood the potential dangers which the islanders' discontent posed to the operation of the mine. This thesis contends that the management of the mine could have utilised BCL's extraordinary position in the PNG economy to force the national parliament into revising legislation concerning greater indigenous participation and improved financial and social returns to the island.

Notwithstanding, there remained other areas of the law which disturbed the Bougainvilleans and which, in practical and ethical terms, were beyond the influence of BCL's managers. Chief among these was the national government's constitutional duty to serve the economic and social interests of PNG as a whole, and the state's right to control its natural resources for the benefit of all citizens. As interference by any foreign company in matters so fundamental to the functioning of government is unacceptable in democratic societies, any move by BCL in this regard could not have been tolerated by PNG if the integrity of the parliament was to be preserved<sup>126</sup>. It is contended therefore, that because any influence which BCL's management may have exerted on the legal environment was limited to specific issues, such efforts

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<sup>126</sup> Concerning Australia's legal stance on Australian corporations attempting to influence foreign governments, the Commonwealth Attorney-General's Department and the Australian Department of Foreign Affairs and Trade advised the writer that such activities are not illegal under any Australian legislation or international treaty to which Australia is a signatory, provided that bribery was not involved in any dealings with the foreign government (Personal communication, 19 October 1999).



would have been insufficient to address many of the fundamental causes of the Bougainvilleans' grievances.

### *The Cultural Environment*

It was noted in Chapter 7 that four aspects of the mine's activities were particularly disruptive to the Bougainvilleans' cultural system: the migration of Niuginians to the island, the employment of Niuginians at the mine, alienation from the land and ecological damage, and the emergence of a market economy. As discussed elsewhere in this thesis, BCL's managers were aware of the deleterious effects these factors had on the company's relationship with the locals and they tried to ameliorate the situation by various means. However, as argued below, the executives could take little practical action to remedy the significant aspects of the cultural disintegration taking place on Bougainville.

For reasons previously described, xenophobia is an inherent characteristic of Bougainvillean culture, and it is manifest at both the micro (inter-village) and macro (non-Bougainvillean) level. Despite their traditional dislike of outsiders, the majority of the locals came to accept their Caucasian visitors over time, and enjoyed good work and social relationships with the foreign population<sup>127</sup>. There was no thawing in the Bougainvilleans' relationship with the Niuginians however; their hatred of the 'redskins' (especially males) was enduring and profound. Recognising that this antipathy was deeply ingrained by cultural programming, BCL's management had to accede to the abiding friction between them, but instituted policies prohibiting expressions of intolerance in the workplace. Generally, the company's anti-racism policies were effective, but they could not be enforced beyond the precincts of the mine. As tensions heightened with the increasing number of Niuginians on the island, management repeatedly sought intervention by Port Moresby, but to no avail. While management frustration over the government's ostensible apathy is under-

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<sup>127</sup> The Bougainvilleans' good relationship with Caucasians (the majority being expatriate Australians employed by BCL) has no clear explanation as it is contrary to all reports of the islanders' individual and collective disposition. The issue is not investigated in any literature. Interpretation of the case history, together with discussions held with two past BCL non-executive employees, suggests that the locals' change of attitude may be attributed to the manner in which they were treated by the mine's staff. BCL employees were the first group of foreigners to display respect and empathy to the Bougainvilleans and their way of life. Unlike governments, planters and many missionaries, the mine personnel regarded the villagers as equals.

standable, parliament was powerless to curtail the constitutional right of PNG citizens to move to Bougainville<sup>128</sup>.

In order to stem migration from PNG and ease racial unrest, it was proposed in Chapter 7 that management could have refused Niuginians employment at the mine. Although this option offers a feasible solution, its implementation would have carried inherent political and economic implications, as well as contravening BCL's long-standing commitment to provide training and employment opportunities for the whole country. At the national level, the government may have reacted negatively to an MNE instituting restrictive employment practices. Acting of its own volition or under pressure from the electorate, it is possible that the parliament would have intervened by demanding that BCL reverse its decision or by prescribing ethnically based employment ratios. On Bougainville, it is unlikely that resident Niuginians would have appreciated the denial of employment opportunities, and violent reaction against the company may have resulted. Management would have needed to devise a method of downsizing of the extant Niuginian workforce; reduction by attrition would have been slow and may have led to Bougainvillean employees victimising remaining Niuginians as they became an increasing minority at the site, and the summary dismissal of all Niuginian workers would have been unconscionable, caused labour shortages at the mine and potentially dangerous. Finally, the efficacy of the scheme could not be guaranteed. Even with no job openings at the mine, a large number of Niuginians may have elected to remain on the island as work prospects elsewhere in PNG were poor. From an economic perspective, selective employment practices would have been costly for BCL. PNG nationals were paid less than expatriates, and there was a lack of suitably qualified Bougainvilleans to fill all vacancies; the exclusion of Niuginians would have necessitated significant increases in the number of expatriate employees, all of whom would have required much higher remuneration.

Although it is difficult to establish a concrete link between damage to the environment and cultural disturbance, it is equally difficult to refute Bougainvillean claims that land and river degradation was detrimental to their spiritual well-being. The case study indicates that some people living in the mining

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<sup>128</sup> The PNG Constitution could have been amended by referendum, thereby allowing the government to control migration to Bougainville. However it seems reasonable to assume that attempts to restrict the movement of citizens (either in general or to a particular province) would not have succeeded at the polls.

leases were traumatised by the changes to their natural realm. Panguna's managers were aware of this situation but, due to the nature of the open-cut mining process, were unable to control the ecological damage caused by the operation. The only opportunity for improvement was conversion to ocean dumping which would have diverted the tailings from the river system. While it appears that a pipeline could have been commenced several years earlier, it is doubtful that this would have alleviated the cultural stress experienced by the communities living in the immediate area<sup>129</sup>. Even with the pipeline in operation, the extant damage would remain starkly evident for generations as rehabilitation of the waterways and surrounding lands would be extremely slow.

### *The Economic Environment*

The connection between cultural changes and economic development on Bougainville is inextricable. Many of the villagers' problems identified in this thesis are symptomatic of a wider predicament: the introduction of a market economy to an undeveloped society. Commercialism had an extreme impact on Bougainvillean culture. The case evidence suggests that capitalism adulterated the finer aspects of the island culture and magnified its baser characteristics<sup>130</sup>. Although the wisdom of BCL encouraging economic development on Bougainville is questioned in Chapter 7, in practical terms there was little the mine executives could have done to contain significantly the monetisation of the population or reduce its impact on the indigenous culture. Economic 'progress' is an inevitable outcome of industrialisation.

### *The Political Environment*

BCL operated in two political arenas, PNG and Bougainville, both of which are culturally fragmented and virtually impossible to govern as a united entity. Throughout the life of the Panguna mine, this situation was an enduring problem for the company's management. The overt and covert divisions between and among the host country and host society made accurate assessments of the political climate almost impossible, as most managerial

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<sup>129</sup> The precise number of Bougainvilleans directly affected by damage to the river system is not recorded. A past BCL executive reports that only a few small villages were located in the area concerned.

<sup>130</sup> Perhaps the most poignant social consequences of the market economy were the Bougainvilleans' abandonment of shared values and equitable wealth distribution within their communities, and the escalation of inter-tribal violence which accompanied increased mobility.

actions had the potential to cause conflict between (i) rival Bougainvillean factions, (ii) the Bougainvilleans and PNG, (iii) the Bougainvilleans and the company, and/or (iv) PNG and the company. Consequently, many management decisions were made with incomplete information and/or were strongly influenced by the need to minimise possible negative political ramifications.

As the political milieu severely circumscribed strategic choices, policies and practices were devised as individual issues arose and/or conditions changed. This reactive approach enabled BCL to perform strongly over many years, thus supporting Weick and Westerley's (1996:444) claim that adhocracies are "particularly good at adapting to changing environments and at innovating in response to environmental demands". Had the PNG government been equally as flexible and responded to the changing situation on Bougainville, this fluid management system may have been sustainable because both parties would have been focussed on accommodating their mutual needs, as well as those of the islanders. As it was, BCL's tractability was confronted by parliament's intransigence. This situation was untenable in the long-run because "zero-sum games in which the company wins but the government loses, or vice-versa, are usually not sustainable..." (Austin, 1990:168). Accordingly, this thesis has questioned management's judgment in maintaining political neutrality and suggested that the executives should have pressured Port Moresby for policy changes.

The consequences of attempting to alter government policies however, may have had detrimental consequences. OECD and UN guidelines deem MNE interference in host country politics to be inappropriate (Getz, 1990), and therefore BCL would have risked censure from those bodies and, in all probability, from Australia and the international community. Nationally, acquiescing to BCL's demands held dangers for the PNG government because it may have encountered a backlash from the other provinces, most of which considered that Bougainville was already receiving preferential treatment. Thus, it is questionable as to whether the parliament would have granted the concessions sought, even when faced with strong coercion from BCL. Further, a change in the stance of the national government may not have had a significant effect on the situation in Bougainville. The conflict between and among the local communities, different generations and political factions went beyond their grievances with PNG, and it is probable that the traditional tensions and jealousies would not have abated.

The case material indicates that BCL management had three alternatives in its dealings with Port Moresby; the executives could (i) comply with governmental requirements, (ii) adjust corporate procedures and policies so as to avoid certain aspects of governmental requirements, or (iii) force a shift in government policy. Generally, the managers chose the first option, but resorted to the second when circumstances necessitated direct negotiations with the Bougainvilleans. Although this thesis hypothesises that BCL's tenure on the island may have been prolonged by management prevailing on the government to amend its policies, it is recognised that the outcomes of such action would have been uncertain in the extreme. The political climate in which the mine operated was treacherous and unpredictable; for BCL's management, the outcomes of intervention were just as ambiguous as maintaining the *status quo*. The extent to which management was able to manipulate the external operating environment of BCL in the pursuit of attaining congruity with the company's internal operating environment was examined in Research Question 1b. In each of the four external dimensions examined, crucial differences between and among the needs and wants of the company, the host country and the host society were identified. These differences were multi-faceted and largely irreconcilable. In some instances, it is possible that managerial intervention may have created more amenable circumstances for the company, however the outcomes of such actions are unclear. Any attempts on the behalf of BCL's management to control its environment carried with them the potential to worsen, rather than improve, the extant situation. It is concluded therefore, that the external operating environment of BCL was fundamentally impervious to significant modification by the company's management.

The two parts of the first research question sought to determine the degree to which the operating environments of BCL were able to be manipulated by the company's management. Analysis of the case evidence has indicated that, although BCL's internal and external operating contexts were amenable to a certain amount of manipulation by senior personnel, the executives' ultimate influence over significant environmental elements was extremely limited.

## **Research Question 2**

The two parts of this research question examine the impact which internal factors (convergence/divergence/crossvergence, management philosophy and organisational culture) had on BCL's external environment.

### Research Question 2a

*Which of the internal factors – the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture – had an impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

#### *Convergence, Divergence and Crossvergence*

The manner in which the Panguna mine was managed had a significant effect on the company's relationship with all extraneous parties. By electing to follow a crossvergent approach, senior personnel sought to synthesise BCL's operations with each of the variables present within its surroundings. As noted in the analysis of the first research question, the essential constituents of management's integrative approach may be categorised as (i) the processual and organisational practices by which the company functioned, and (ii) the social and political policies through which the company interacted with outside entities. Each of these factors had an effect on the external environment.

The mining process employed by BCL affected the external environment in both physical and social terms. The extraction and treatment of minerals is inherently harmful to immediate ecosystems, especially when natural waterways are used for the carriage of tailings. The ecological damage on Bougainville was exacerbated by the lode's relatively low copper content. In order to sustain economically viable yields, vast amounts of earth needed to be excavated and this, in turn, produced a large volume of waste and tailings. Because of the environmental damage, the pit and tailings area were the most contentious aspect of the process at Panguna, however the attendant infrastructure and facilities were also a source of discontent. Many locals regarded the entire complex as intrusive, as it was incongruous with its natural setting and occupied virgin forests or lands previously used for agricultural and domestic purposes. According to Father Momis, BCL had "parked [its] bulldozers in our living rooms" (refer Appendix P). Such use of the land disrupted Bougainvillean culture, especially from a spiritual perspective.

BCL's organisational practices had few unique features. The commercial imperatives of profit generation in a competitive industry dictated the basic form and functioning of the company. In many respects however, the principles of Western capitalism were incompatible with Bougainvillean traditions. Land which was once valued for its intrinsic and spiritual properties came to be

valued in economic terms. By obeying PNG legislation and court rulings, management alienated many locals who could not comprehend foreign laws, much less accept them. The focus of Bougainvillean education and training changed from preparing men for their role in village life to preparing them for employment. The payment of wages to villagers led to their dependence on the mine for survival, and materialistic motivations replaced the communal ethos. Social status for indigenous employees shifted from being a reflection of their position in the community to being a reflection of their position in BCL's hierarchy. The measurement of time changed; life became regulated by the clock instead of the seasons. In short, the introduction of corporate organisation permeated all facets of the Bougainvilleans' life and transformed their social institutions.

Like its organisational system, BCL's social and political policies were founded on Western logic. In accordance with accepted Australian perceptions of corporate responsibility, propriety and equity, management conformed with the laws which applied to the company, compensated the locals for loss and damage, restricted the area subjected to environmental degradation, paid all imposts demanded by the national government, observed non-discriminatory employment practices, paid fair wages, sponsored a trade union to represent the workers, devised extensive employee development programs, encouraged local enterprises, provided infrastructure, built social and recreational facilities, and endowed philanthropic bodies. While these activities, and the results thereof, had varying impact on those external entities with whom BCL dealt, their greatest effect was on the Bougainvillean people. Many policies, despite their altruistic objectives, had detrimental outcomes for the islanders.

### *Management Philosophy*

The individual and collective philosophies of BCL's senior personnel were arguably the most influential of the three internal dimensions under review. The manner in which BCL was managed and the nature of its culture (discussed below) were a direct consequence of the executives' system of values, beliefs and attitudes. Therefore, any impact, positive or negative, which BCL had on its environment may be traced back to the ideologies behind the managers' behaviour. The mine's founder contemplated this issue during interview: "I was in charge right from the start, so people may blame me for anything that went wrong, but they may also give me credit for all the things that went right" (Personal communication, 1998). Although management's philosophies

pervaded all aspects of the company's operation, two are considered as having had critical repercussions on BCL's external milieu: insistence on legal compliance and a conviction that the mine should benefit the entire country.

### *Organisational Culture*

As noted previously, the most outstanding feature of BCL's culture was the fostering of harmonious workplace relationships. Until the political situation on Bougainville began to degenerate in the mid 1980s, rapport between the various races was such that the accord between them was virtually taken for granted by management. The company's inclusive climate could not dispel the inherent rancour between the Bougainvilleans and the Niuginians, however. Over time, the intensifying ethnic tensions became a significant problem for BCL. The embodiment of racial tolerance in BCL's organisational culture was in conflict with the cultures of both the host society and the host country, and management's persistence in employing Niuginians was detrimental to all parties. Australian concepts of equity, which denounce discrimination based on ethnic extraction, were applied without sufficient regard to the local situation. Melanesian culture accepts, indeed encourages, racism.

BCL's benevolence to those Bougainvilleans directly affected by the mine had unanticipated repercussions. Management considered that the company had a responsibility to look after those whose lives it had disturbed. Although this paternalistic approach was largely appreciated by the locals, it presented the PNG government with a further opportunity to disregard its obligations to the province, generated an expectation in some communities that BCL would attend to all the needs of the people, and caused resentment among those villagers who did not receive benefits from the company.

The internal factors which had an impact on the external environment of BCL were examined in Research Question 2a. The case evidence revealed that particular elements of the manner in which BCL was organised and managed, executive philosophies, and the company's culture had repercussions on the natural, social and economic setting of the mine. Of particular significance was the ecological and cultural impact of the mining process, the company's application of a number of inappropriate Western standards and remedies, and management's culture-bound perspectives of laws, nationhood, inter-ethnic relationships, and corporate responsibility. The degree to which these factors



impacted on the company's external environment are considered in Research Question 2b.

#### Research Question 2b

*To what extent did the company's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture impact on the legal, cultural, economic and political environment of Bougainville Copper Limited?*

#### *Convergence, Divergence and Crossvergence*

BCL's operating process had an extreme impact on the physical environment. In particular, the pit and tailings area were unsightly and caused substantial ecological damage, much of it permanent. Whilst the visual impact of the operation was clearly evident, it is difficult to gauge the actual effects which land and river degradation had on the island and the local people. As reported in Chapter 5, perspectives differ and no concrete conclusions are available. Assessing the accuracy of the various claims is further complicated by the absence of detailed information from those most affected by the damage: the Bougainvilleans. Notwithstanding, the weight of evidence suggests that Western observers were more concerned about the environmental and social impact of the damage than were many of the islanders. The MAP's 'Bougainville Initiative' (Appendix P) is instructive in this respect. While the letter censured BCL for "pour[ing] fifty million tons of our earth into the Jaba River every year", it did not ask that the practice stop; the focus of the proposal was "that BCL set aside each year three percent of its gross income... to be given directly to the North Solomons Provincial Government". In a similar vein, the ultimatum of the 'new' PLA required the monitoring and control of environmental damage, plus K10 billion compensation and the assignment of the government's BCL shares to local landowners (Okole, 1990). The demands of the MAP and the PLA demonstrate that, while the Bougainvilleans were anxious about the state of their environment, they were prepared to endure the damage on the condition that they receive greater financial returns from the mine. The observations of a past BCL executive support this proposition: "I really don't think that the environmental question was the root cause of the Bougainvilleans' grievances" (Personal communication, 1998).

Whereas BCL's operating processes had an immediate and tangible impact on the environment, its organisational system resulted in slower and more subtle

changes. The Australian and PNG administrations supported the establishment of the Panguna mine because they regarded it as a central instrument in the economic and social development of PNG. In effect, BCL had a dual charter; by establishing an operation based on orthodox commercial practices, the company had an opportunity to simultaneously generate profits for itself and facilitate the development of its host. These goals were achieved, but at a high cost to the Bougainvillean way of life. The impact of introducing a business economy on Bougainville was reported by Father Momis:

The vast sums of money you [i.e. BCL] make...has created amounts of cash undreamt of before. And that cash has tragically seduced some of the best leaders of our people..It has robbed us of some of our finest men, who have ceased serving their people, and instead line their own pockets with the money of BCL. ...it is your shame as much as ours<sup>131</sup> (Bougainville Initiative, Appendix P).

Development, as defined by Australia and PNG, was thrust upon the Bougainvilleans. There was an assumption by outsiders that the islanders wanted and/or needed 'modernisation', and this could be best achieved by introducing a Western-style economy with BCL as the primary medium. However, as described elsewhere, the emergence of capitalism eroded virtually every aspect of the communities' social fabric. The incompatibility of Bougainvillean and Western perspectives on development is epitomised in the recollections of a past mine executive:

The best summary of the Bougainvillean outlook was given me by a local. He said "I've figured out you Westerners. You are born, you have a couple of years and go off to school for 15 years, then you go into the workforce all your life, then you spend the last years of your life sitting under a tree doing nothing. Yet, we are born and all our life we sit under a tree and do nothing, and you have the bloody hide to call yourselves civilised" (Personal communication, 1998).

It is argued therefore, that BCL's organisation system, while commercially sound and socially well intentioned, was a key contributor to the breakdown of Bougainvillean culture. Notwithstanding, consideration must also be given to the ambivalent attitude of the MAP and the 'new' PLA on this issue. These bodies claimed to be concerned about the deleterious social effects which the commercial economy had on the locals and denounced BCL for its role in 'Westernising' Bougainville, yet they sought to perpetuate the situation by demanding increased financial returns to the island.

BCL's social and economic policies were founded on the same reasoning as its organisational systems; the imperatives of profit and a desire to contribute to national development. The company realised both these goals. It returned a

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<sup>131</sup> It is significant that Momis does not blame BCL solely for the ill effects of monetisation on the island. Whilst the general tone of the letter is accusatory, he apportions the responsibility for this between the company and the Bougainvilleans.

profit to the shareholders every year and contributed over K1,138 million (US\$973 million) to the PNG and NSP economies (*BCL Annual Report, 1989*). While BCL's trading results do not appear to have created significant dissatisfaction in terms of excessive earnings or the repatriation of revenue, many of its externally focussed policies attracted sustained criticism. BCL's adherence to the law caused a serious rift between the company and the Bougainvilleans who were not interested in the national benefits which accrued from the legislation. They regarded PNG's legal system as a vehicle through which Port Moresby distributed the profits from their land among the despised Niuginians, and management's compliance was interpreted as tacit agreement with the law. Management's observance of the government's formulae for compensation similarly aggravated many islanders. Local initiatives also caused dissent. As noted in Chapter 5, the resettlement program was condemned by those it was designed to assist, some accused the Arawa Medical Clinic of being elitist, company sponsored education was considered in some quarters as Eurocentric, and the Business Advisory Service, Bougainville Development Corporation, Bougainville Copper Foundation and Road Mine Tailings Lease Trust Fund failed to reach their objectives. According to traditional measures of corporate behaviour, BCL's social and political policies were thoughtfully developed, ingenuous, and sympathetic to the company's societal setting, but they proved to be divisive within the host society.

It was argued in Chapter 7 that BCL's success may be largely attributed to the adoption of a crossvergent management system which provided a high degree of environmental fit between the company and its hosts. It was also suggested that the efficacy of this system declined over time because management failed to adapt it to the changing needs of the local people. The above discussion of the extent to which BCL's management approach impacted on its external environment supports this reasoning. The company's processes, organisational systems and policies affected virtually every aspect of the villagers' lives, but the Bougainvilleans' attitude towards the impact of those elements was shifting by the mid 1980s. Management failed to appreciate the depth of the islanders' need for change, and in so doing allowed BCL to become increasingly divorced from its social environment. Acknowledging this, one past executive noted:

Probably the biggest issue was a failure to recognise the inevitability of what happened. Had we seen this, we might have done things a bit better. We had 20 years of reasonable stability, and did not see the importance of the few people that occasionally threw stones at us. We missed the fact that the younger people would not accept what the older generation had agreed to (Personal communication, 1998).

### *Management Philosophy*

BCL's crossvergent management approach is attributed to the executives' convictions that the company's integration with PNG and Bougainville should be maximised. However, it is evident from the case that, despite the managers' extensive efforts to synthesise BCL with its surroundings, the company remained essentially 'Western' in its perspectives. This is particularly apparent in the determination of management to assist with the development of the entire nation and to comply with the law. This behaviour suggests the coexistence of opposing opinions within the individual psyche of the executives; on one hand they wanted to achieve the highest level of local environmental congruence, and on the other hand they recognised the necessity of traditional corporate governance. Given that the demands of conventional management and organisational systems prevailed, it may be inferred that the executives harboured a culturally bound philosophy of their stewardship of BCL. Although all senior personnel were highly sensitive to the aspirations and needs of the Bougainvilleans, they were ultimately governed by their Western ideologies regarding market economics and managerial responsibility. The strength of Western influences on management behaviour emerges from much of the interpretation of the case data, but it was also clearly expressed by one former executive in interview:

Another mistake we made was not taking the [Bougainville Initiative] more seriously. That should have rung all sorts of alarm bells and should have forced us to sit down with Father Momis to get to the bottom of the problem. One of the things I have learned about people in general and Papua New Guineans in particular, is that you cannot talk too much or listen too much. You need to talk and talk and talk and listen to what is really worrying them. We were more content to keep the operation running at maximum output rather than worrying about the feelings behind this letter. In retrospect, keeping the mine running meant absolutely nothing; if we had shut the operation down the day we got the letter and left it shut for 6 months while we talked and did nothing else, it would have been a hell of a lot better than what has happened over the past 10 years. So instead of writing this one page reply which said this is not possible (thus taking a Western-style approach), we should have gone to every length to get to the bottom of it. I must emphasise that our response was agreed to by everybody - it was not a Paul Quodling only response.

... I don't think the situation was beyond recovery. I think all the rebels were doing at that stage was demonstrating their frustration and saying "Listen to us". But what the company did and the government did was to take a Western attitude that these people were breaking the law and they have to be taken in hand. When the first pylon was exploded, the company should have shut down and started talks. We did not do that. What we did was to show them how good we were from an engineering point of view by getting the pole up again and power on in about 16 hours. Then they blew the next one down. Looking back, that was a ridiculous thing to do. And we were all guilty of this; not just one executive. We were mainly interested in keeping things going and normal (Personal communication, 1998).

The management philosophy at BCL therefore is judged to have been Western in its outlook and widely shared among the individual executives. Because

these philosophies drove the company's actions and policies, it is proposed that this internal dimension had a most significant impact on BCL's external environment. Irrespective of management's desires for the mine's integration with Bougainville and their application of crossvergent principles, BCL was a reflection of ideologies with which the islanders had little affiliation and which they often interpreted as anti-Bougainvillean.

### *Organisational Culture*

BCL's organisational culture had a severe effect on all ethnic groups on Bougainville. By defining the company's culture in terms of Australian concepts of social equity and corporate obligation, management inadvertently provoked violence and exacerbated pre-existing tribal divisions. The intensity and complexity of ethnic separatism in PNG and Bougainville makes racial harmony a virtual impossibility; the island communities barely endure one another, the Niuginian clans are openly antagonistic and divided, the Bougainvilleans consider themselves superior to the people of PNG, the Niuginians despise the Bougainvilleans, and both groups only accept Caucasians with a detached regard. The congregation of the heterogeneous islanders and Caucasians at Panguna was an inevitable, and potentially volatile, consequence of the mine, but one which caused no significant difficulties due to the Bougainvilleans' emerging sense of common identity and BCL's sensitive management practices. The employment of Niuginians however, was unacceptable to the Bougainvilleans and racial tensions arose. Overt hostility was uncommon at the mine site, but elsewhere violence was rife. Local sentiments are described by a former BCL executive: "The Bougainvilleans are generally placid, but when they are stirred up, they are pretty fierce, and they would attack these Niuginians; the highlanders were scared of them (Personal communication, 1998). As noted elsewhere, management came to appreciate the extent of this problem in time, but many issues, both endogenous and exogenous, militated against the exclusion of Niuginians, so the matter remained unresolved. For both the Bougainvilleans and immigrant Niuginians, the consequences of incorporating Western ideals of integration into BCL's culture was disorder and brutality.

Although the managers of the mine appeared to deal with PNG and Bougainville in an even-handed manner, their basic sympathies lay with the islanders. The company's relationship with the host country was amicable, but it was formal and essentially founded on protocol. Conversely, BCL's core

culture was characterised by an uncommon affinity with the Bougainvillean people. As a result, management empathised with the islanders' grievances with the government and attempted to rectify the inequities where possible. As reported previously, these attempts were largely unsuccessful because PNG increasingly abdicated its responsibilities, the locals developed a welfare mentality, and jealousies emerged over the distribution of company payouts. Hence BCL's culture served to polarise the already divided Bougainvilleans and intensify their dislike of PNG.

The degree to which BCL's internal constituents effected its external environment was considered in Research Question 2b. A number of the company's endogenous elements were found to have had a significant impact on the setting in which BCL functioned. The mine's operating processes caused substantial and irreversible physical damage, its organisation systems brought a new economic order which transformed local customs and traditions, and its social policies exposed in-grained resentment and hostilities. Management philosophies, although sensitive to the Bougainvilleans, were constrained by the demands of commercialism and legal conformity, both of which were foreign to the islanders' way of thinking. The corporate culture of BCL, while laudable by Western standards, proved to have socially divisive consequences.

The focus of the two parts of the second research question concerned the nature and extent of the effects which BCL's internal environment had on its wider milieu. Evidence from the case suggests that the introduction of the mine to an undeveloped society had a substantial environmental impact, particularly in terms of social and economic changes. This phenomenon appears to have been exacerbated by the dominant nature of BCL's presence on the island. Thus it is considered that almost every aspect of the company's functioning had critical, and generally negative, environmental consequences.

### **Research Question 3**

The two parts of the third research question examine the impact which exogenous factors had on the management of BCL's operations. The discussion focuses on the four external dimensions considered throughout this thesis, namely Bougainville's legal, cultural, economic and political milieu.

### Research Question 3a

*Which of the external factors – legal, cultural, economic or political – had an impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

#### *Legal Factors*

With the exception of matters concerning employee relations and the natural environment, the management of BCL was very much regulated by PNG's legal system. It is possible that BCL was more constrained than most enterprises in the country at the time because it was subject to legislation specifically designed for the Bougainville project – the *Mining (Bougainville Copper Agreement) Ordinance 1967*. Although many of the terms of this, and other statutory and judicial controls, restricted managerial prerogatives, these provisions did not significantly effect the execution of the company's business as they concerned issues common to most corporations – company tax, employee income tax, occupational health and safety laws, and so forth. There were however, a number of legal prescriptions which had a profound impact on BCL's operations. Chief among these were State ownership of sub-surface minerals, the exclusion of indigenous landowners in negotiations over access and compensation, and the collection of all mining imposts by the national government. Repeated attempts by BCL management to have the parliament address these issues were unsuccessful. Port Moresby's intransigence may have been the result of the enduring tensions in the PNG-Bougainvillean relationship, however the former BCL executives unanimously suspect that control of mine-generated revenue was the root cause of the government's refusal to negotiate on these issues (Personal communication, 1998):

Port Moresby did not care what happened to the island so long as the government got the money.

I don't think the PNG government was very interested in the Bougainvilleans. They might have had some concerns about the natives' grievances, but not to a very large measure; they were more concerned by the revenue.

From the National Government's point of view, Bougainville was their big 'milch cow' and they did not want to 'rock the boat'... it could have been a lot better if PNG had done more for the Bougainvillean people.

Although PNG's laws were not intended to impinge on BCL's relationship with the Bougainvilleans, they were largely responsible for the friction between the two parties; friction which would eventually lead to the mine's closure.

### *Cultural Factors*

It was reported in Chapter 2 that cultural differences between home and host countries are an expected, yet complicating, factor in the management of MNEs which operate in LDCs. Conscious that congruity with the island's culture was fundamental to the Bougainvilleans' welfare and the mine's success, BCL's managers structured the mine's organisation and processes (within limits) to achieve this end. Similarly, they developed various programs designed to establish and maintain congenial relations between the expatriates and the natives. The focus on 'black and white' aspects of integrating the company and the locals was too narrow however; management was not aware of the diverse and complex cultural climate which permeated Bougainvillean society. Cultural division among the island communities is deep and extensive (a situation which was amplified by the emergence of the commercial economy and difficulties over compensation) except for their collective hatred of the Niuginians.

In time, long held aspirations for political independence began fermenting, rifts between older and younger village members developed over leadership, differing attitudes on land usage evolved, and resentment of PNG's laws escalated. As these matters were changing the dynamics of Bougainvillean society, BCL's management was confronted by three problems. First, the existence and intensity of each issue had to be identified. Second, the executives needed to comprehend the interrelationships of the individual elements. Third, the impact of these fluid cultural arrangements on the mine had to be ascertained and appropriate action taken. Given the obscurity, multi-dimensionality and intricacy of Bougainville's aggregate cultural environment, aligning it with BCL's internal configuration was a complex and ongoing task.

### *Economic Factors*

PNG's dependence on the Panguna mine to fund most of the country's plans for economic development placed the management of BCL in an invidious position. The central government regarded mining revenue as a national benefit. The islanders believed they should be the major benefactors. The company's executives appreciated both views, but firmly believed that Port Moresby's expenditure on Bougainville was grossly insufficient:

The administration was trying to help the whole country with the proceeds of the mine, but the Bougainvilleans could not get away from the fact that they were being neglected and PNG was being developed with their money.

The company tried to point [this] out to the national government... I drafted a letter to the national government stating the issues we wanted to address; principal among



them was the aspirations of the Bougainvilleans. I devised an action plan for greater local benefits, but it fell on deaf ears because Father Momis when he got back into parliament did not appear to be interested in his electorate (Former BCL executive, Personal communication, 1998).

As noted earlier, the past managers consider that PNG's desire to retain the bulk of mining revenue was the crux of the legal tensions between the Bougainvilleans and the government. This issue remained unresolved and caused divisions between the Bougainvilleans and the company. A similar problem emerged from the government's intractable stance on the calculation of compensation monies. By refusing to negotiate with the landowners concerned and insisting that BCL apply government formulae to determine the quantum and distribution of funds, parliament was instrumental in further eroding the communities' confidence in Panguna's management.

Beyond the difficulties caused by government policies and inaction, other economic matters strained the Bougainvillean-BCL relationship. Management initiatives to stimulate local business were not adequately developed by the islanders, BCL's philanthropic undertakings were criticised, the company was accused of encouraging the locals' reliance on the mine, and dissension over the emergence of economic 'classes' was growing in the local communities. The 'Bougainville Initiative' reflects some of these concerns:

You pay taxes to the national government, you pay wages, you pay royalties, you trumpet your public relations stunts such as the Bougainville Copper Foundation, which doles out small sums to local sports clubs and the like. You build infrastructure, you compensate landowners. Yet those very monies are also very much the problem ... our economy has been reduced to colonial dependence (Appendix P).

Although the above perspectives were not universally held among the Bougainvilleans, the critics constituted a significant (and eventually influential) segment of the population. Management knew of these criticisms, but failed to appreciate the extent of dissatisfaction and the importance of those who voiced it.

### *Political Factors*

A pivotal issue which emerges from the Bougainville case is the differing perception of PNG's nationhood held by BCL management and the country's citizens. Although the executives recognised the political divisions within the population, they regarded PNG as a single state and operated the company according to this precept: "We wanted to be a model citizen and we made sure that what we did was to the benefit of the country as a whole" (Former BCL executive, personal communication, 1998). The Papua New Guineans however, have no sense of nationhood, and therefore BCL's actions were not acceptable –

particularly to the Bougainvilleans. Austin (1990) claims that this proclivity is common to the inhabitants of many LDCs because of the enduring strength of ancient tribal relationships. In defining nationhood, Connor (1971:337) notes:

The essence of the nation is psychological, a matter of attitude rather than of fact... We can describe the nation as a self-differentiating ethnic group. A prerequisite of nationhood is a popularly held ... belief that one's own group is unique in a most vital sense. In the absence of such a popularly held conviction, there is only an ethnic group. A distinct group may be apparent to [outsiders], but without a realization of this fact on the part of a sizeable percentage of its members, a nation does not exist.

BCL's managers did not realise the distinction to which Connor refers. Using their own abstractions of nationhood<sup>132</sup>, they conceptualised PNG as an essentially cohesive society with commonly shared aspirations for development. Based on this understanding, management attempted to arrange BCL's internal elements to correspond with those aspirations. Because the nation of PNG was (and remains) an illusion, the task of achieving organisational alignment with the national environment was an impossibility.

Despite annexation by Germany, Britain, Australia, Japan and PNG, the Bougainvilleans have maintained their resolve for isolation. All foreigners, irrespective of their intentions or treatment of the locals, are fundamentally not welcome (Lafitte, 1993; Oliver, 1991; Polomka, 1990a). Although BCL forged an amicable relationship with the people over time, the company and its people were unable to achieve the deep assimilation they desired. To many locals, BCL was yet another intruder. Just as foreign countries had imposed their cultural and political systems on the islanders, the mine brought alien approaches to work methods, resource allocation, social practices, and the like. Aware of these issues, BCL's management attempted to arrange the mine's organisation and processes so as to align with the host environment as much as possible. These alterations to the company's internal arrangements resulted in certain inefficiencies, as resources were diverted from the 'business' of extracting ore.

The islanders' inherent sense of insularity was intensified by PNG's political manipulation and neglect of Bougainville. Whereas the Bougainvilleans treat all strangers with an element of disdain, they loathe the Niuginians. The people were deeply offended by Port Moresby having official authority over the mine,

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<sup>132</sup> Whilst it is assumed that the executives' cultural conditioning was responsible for their perceptions of what does, and does not, constitute nationhood, the administrations of Australia and PNG were accountable for the perpetuation of these notions. Both governments promoted PNG as an emerging Pacific nation and encouraged BCL to participate in its development, yet both failed to apprise management of the realities of PNG's political climate.

and BCL's submission to that authority was interpreted as tacit agreement with PNG and its policies on Bougainville. This situation accelerated the push for secession, and fermented a rift between the company and the indigenes which management was not able to correct.

Notwithstanding the Bougainvilleans' common desire for political separatism and their collective hatred of PNG, the islanders are deeply fragmented among themselves. Each of the hundreds of villages has peculiar social arrangements which preclude a common sense of identity. For BCL's management, this caused difficulties in coming to a mutually acceptable agreement on virtually every issue. The problem was exacerbated by the fluidity of leadership within each community, and the changing attitudes of the younger generation.

The external factors which had an impact on the internal environment of BCL were examined in Research Question 3a. From the case analysis, it was concluded that each contextual element in which the operation was immersed had a substantial effect on the form and functioning of the company. Aspects of the legal system caused tension between BCL and the Bougainvilleans, despite management's ongoing efforts to rectify the situation; cultural divisions and the Bougainvillean desire for independence impeded the aspirations of management for BCL's integration with the island communities; dissension over the calculation and distribution of compensation and government revenues exacerbated extant rifts between the local people, the company and PNG; and the fragmented nature of Melanesian politics divided the sympathies and responsibilities of the management of the mine. The degree to which these factors impacted on the company's internal environment are considered in Research Question 3b.

#### Research Question 3b

*To what extent did legal, cultural, economic and political factors impact on Bougainville Copper Limited's approach to convergence/divergence/crossvergence, management philosophy, and organisational culture ?*

#### *Legal Factors*

The contentious legal issues noted above were not acceptable to either the BCL executives or the Bougainvilleans. Management was caught between sympathy for the host society and its obligations to the host country. Reconciling PNG's demands and the islanders' needs was a substantial drain on BCL's financial

and human resources. To offset Port Moresby's minimal support of the island and the inequities arising from the calculation of compensation, BCL provided local communities with facilities and services normally furnished by government. Initially BCL was prepared to meet this cost, but it became prohibitive as PNG increasingly evaded its responsibilities and the villagers' expectations escalated. Further expense was incurred in the hiring of security staff to control the violence resulting from the growing numbers of Niuginians on the island. Although difficult to quantify, the legal situation placed other demands on BCL's management. Maintaining faith with the communities became difficult, relations with the government became strained by repeated submissions for legislative changes, court actions were required to settle disputes, and perpetual rounds of negotiations with the landowners were necessary.

Parliament's indifference to enacting legislation which would solve major tensions on the island was indicative of PNG's general apathy towards both the Bougainvilleans and the company. Facing a rapidly deteriorating situation in 1988, executives from BCL's Australian headquarters sought intervention by the PNG government. As revealed by one of these executives in interview, the company's requests were virtually ignored:

When it reached the stage of blasting the first power pylon, we flew from Melbourne to hold a meeting with the [PNG] Prime Minister because we thought it was so serious. We needed to express our concern and to insist that a delegation from the Parliament goes to Bougainville and talks to them. We told [Prime Minister] Namaliu that this was serious and we've got to get dialogue going; he agreed this was a good idea. But it was just before Christmas, and he obviously thought it was not a good idea to hurry into action before Christmas, so he did nothing. A month later things got infinitely worse (Personal communication, 1998).

The mine's legal milieu impacted on BCL's relationship with the Bougainvilleans to such an extent that it made the effective management of indigenous affairs almost impossible. The managers were bound by laws which were personally and professionally unacceptable, the Bougainvilleans resented both the source and prescriptions of the laws and were angered by company's compliance with them, and management could not rely on the legal system when it was required. Bougainville's externally imposed legal environment obstructed the effectiveness and efficiency of the company's functioning, and is judged to have been a significant contributor to the mine's ultimate closure.

### *Cultural Factors*

Whereas the legal climate could have been made more amenable to BCL and the Bougainvilleans had the government had the resolve to address the situation, the

mine's management had little choice but to work within the extant cultural framework. In the early years, this was largely achievable because the communities, although separated by tribal customs, had yet to experience the massive social and economic changes which were to come. As time progressed and the consequences of development became apparent, schisms emerged throughout Bougainvillean society. These dissensions transcended established antipathies; the divisions became widespread and multi-faceted as traditional village and island cultures came under increasing threat. Apart from their universal hatred of the Niuginians and PNG's involvement in their affairs, the Bougainvilleans were in conflict over land usage, differences in wealth, employment and education, tribal leadership, respect for the law (national and provincial), ecological damage, inter-ethnic marriages, and the benefits (or otherwise) of the mine. Uncertainty and fear had replaced the predictability of traditional life.

The multi-faceted, almost chaotic, nature of BCL's cultural surroundings effectively sabotaged management's objectives of sustaining a significant level of crossvergence. The BCL executives were faced with too many cultural variables and community factions to successfully blend the mine's operations with the environment. As local divisions intensified, the ability of management to communicate with the Bougainvilleans declined. Central to this problem was the proliferation of entities purporting to represent the local people. As a former executive noted in interview, this became a serious impediment to the operation of the Panguna mine:

This is the problem we had. Everybody who made demands on us – Momis [PNG Minister for Provincial Affairs], Kabui [NSP Premier], Pepetua [the 'new' PLA] and a couple of others – they weren't the recognised body representing the landowners. They were some offshoot. And we were advised by even Kabui at that stage [the period immediately following the 'new' PLA's demand for K10 billion] that they were not the main players and we should ignore them. So we did, but this was the wrong thing to do (Personal communication, 1998).

The cultural environment is deemed to have had an immense impact on the internal operations of BCL. Cultural factors had influenced the company's processes and organisation from the earliest days, and a high degree of integration had been achieved by management's sensitivity to the Bougainvillean 'way'. However, with widening community divisions, increasing resentment of PNG and an erosion of societal traditions, it became impossible for BCL to structure itself in a way which would be acceptable to the local population. In effect, the company became alienated from its host society.

### *Economic Factors*

The economic environment was a critical impediment to BCL's operations because of the scale of external dependence on the mine. At the national level, PNG relied on revenue from the mine to substantially fund the country's entire development program; at the local level, the Bougainvilleans looked to BCL to assist in their aspirations for economic advancement and to compensate for Port Moresby's neglect. Legally bound to PNG's demands and sympathetic to the locals' plight, management tried to satisfy both parties. As a result, BCL's earnings for its investors were significantly eroded<sup>133</sup>.

Estimating the actual effect which the economic environment had on BCL is impossible. From the mine's inception, it had been management's goal to improve the Bougainvilleans' circumstances, yet every initiative appears to have generated increased division among the locals. Instead of assisting the islanders, money became a prime factor in destroying their culture and further fragmenting their already disjointed societal arrangements. Apart from the financial burden this placed on BCL in its attempts to alleviate the problems, managing the mine became more difficult. The executives were cognisant that the mine's internal organisation needed to satisfy the wider environment but, as discussed under 'Cultural Factors' above, this could not be realised amid growing local disunity. Even if management had been able to identify the expectations of each faction, the company's internal constituents could not have been arranged to satisfy such a diversity of demands.

The fundamental economic problem encountered by BCL's management was a difference in ideologies. The company was founded on the principles of Western capitalism; its *raison d'être* was the generation of profits. The Bougainvilleans practised a form of subsistence-based socialism. Given the antithetic nature of these economic systems, expectations of consensus were unrealistic. The company could not significantly change its fundamental organisation and survive; the Bougainvilleans, in aggregate, were not prepared to abandon their way of life. Thus, the incompatibility of each party's internal 'rules' precluded BCL from a synergistic relationship with its immediate hosts.

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<sup>133</sup> As noted in Chapter 7, Carruthers and Vernon (1990) report that CRA (BCL's major shareholder) received a 22 per cent return on its 53 per cent equity over the life of the mine.

### *Political Factors*

Because the political environment on Bougainville operated on various planes, it was a treacherous field for the BCL executives to negotiate. At the macro level, management was required to deal with two hosts: PNG and the Bougainvilleans. Each group was antithetic to the other, and each made differing demands on the company. At the micro level, the Bougainvillean clans were divided among themselves, as were the Niuginians who had migrated to the island. Focussing predominantly on the macro level issues, BCL's management adhered rigidly to PNG's mandates while simultaneously taking unprecedented measures in accommodating the Bougainvilleans in the organisation and processes of the mine. The two political arenas could not be taken in isolation however, as growing micro level hostilities were provoking extant national-provincial tensions and causing local discontent with the mine. Over time, this amalgam of political division and dissent inflamed latent desires for Bougainvillean independence.

For BCL, the Bougainvilleans' mounting secessionist sentiments were to prove fatal. A former mine manager described the islanders' thinking:

The Bougainvilleans would gladly cut each others' throats based on language differences, but the only thing that combines the Bougainvilleans is their hatred of the 'redskins'. To see the 'redskins' getting most of the money generated by the mine really gave them reason for hate. But there was nothing they could do about it; they could not attack them because of the ocean between them. But here is the [mine] which is supplying the 'redskins' with money and creating that injustice, therefore, if we attack that, we are doing our best to rectify that injustice. (Personal communication, 1998).

Bougainville's political climate was arguably the most significant of BCL's contextual factors, as it was the primary motivator in the rebellion which closed the Panguna mine. Whilst official authority over the mine's operation rested with PNG, the Bougainvilleans retained ultimate power over its presence on the island. Despite the executives' efforts to manage the political environment, they were not able to do so, and BCL became enmeshed in the Bougainvilleans' century-long struggle for independence.

The extent to which external factors impacted on BCL's internal environment were examined in Research Question 3b. Each of the four environmental dimensions reviewed were found to have constrained managerial efforts to achieve BCL's goals of maximising profits, advancing PNG and developing Bougainville. The magnitude and diversity of the island's environmental forces were such that management could not have configured the company's human, physical, financial or organisational elements to suit all parties.

The two parts of the third research question investigated the character and severity of the impact which the mine's external environment had on the form and functioning of the company. It has been determined that critical aspects of Bougainville's unique legal, cultural, economic and political setting were extremely influential on the manner in which the Panguna mine operated.

#### **Research Question 4**

*Was the closure of Bougainville Copper Limited's Panguna mine the result of a deficiency in environmental alignment?*

While the available evidence indicates that BCL was not able to achieve the enduring level of internal-external alignment required to maintain organisational performance, it cannot be inferred that this lack of environmental congruency was the primary reason for the closure of the Panguna mine.

Three pivotal issues have emerged from the findings of the preceding research questions. Firstly, it was determined that management was severely restricted in its ability to control fundamental components of BCL's internal and external environments. Secondly, it was determined that a number of crucial internal factors had a substantial and largely detrimental impact on BCL's social, economic and physical surroundings. Thirdly, it was determined that the mine's external milieu significantly inhibited the internal operations of the company. It may be concluded therefore, that BCL's internal and external environments were essentially incompatible, with each having a deleterious effect on the other. Thus, according to the literature discussed in Chapter 2, the failure of the Panguna mine may be attributable to an extreme lack of environmental congruence over which management had little influence.

This proposition does not account for the Bougainvilleans' determination to gain independence however. It is evident from the research that the islanders harbour a persistent desire for political and economic isolation, and a number of key authorities cited in this thesis have asserted that this resolve made the revolution inevitable. If this argument is accepted, the relationship between BCL's internal and external environment is irrelevant. The mine was simply a victim of a predestined war, and BCL would have been evicted from the island irrespective of any actions taken by management.

It is contended therefore, that the failure of the Panguna operation did not result from managerial inability to achieve congruency between BCL's internal and



external environments. Notwithstanding, it appears that the gradual deterioration in the relationship between the company and various extraneous factors influenced the timing of the civil war, and hence the timing of BCL's closure. This view is sustained by a former BCL executive who reported that

...Bougainville will [always] remain separate from PNG and divided within itself. For thousands of years, they have been a separate and distinct race... It is only in the last 50 years that they have been welded into this massive nation called PNG. To force Bougainvilleans to become married to PNG [would eventually cause] animosity. Sooner or later the Bougainvilleans were going to tell PNG that they did not want to be part of that country. I believe the mine sped that process up. (Personal communication, 1998).

With the benefit of hindsight, it seems that BCL's tenure on the island was limited from the outset. This study has shown that, while a number of managerial actions (and lack of actions) may have been ill-advised, they were of little consequence in the long term. More judicious managerial decisions in some areas may have prolonged the life of the mine, but not averted the war which would lead to its demise. On reflection, a past BCL manager noted that "...there was nothing that could have been done a lot differently other than not open the mine. Once the decision was made to start the mine, the die was cast" (Personal communication, 1998).

Thus, Research Question 4 is resolved in the negative. The closure of Bougainville Copper Limited's Panguna mine was not the result of a deficiency in environmental alignment.

### **The Central Research Question**

From the above outcomes of the seven subordinate questions, the central research question may now be addressed. This question is:

*In what ways might the experience of Bougainville Copper Limited be instructive to the study and practice of MNE management in environments which are significantly different to home country conditions?*

Since the late 1950s, there has been substantial discussion in the literature concerning the relationship between organisations and their external environments, particularly in relation to MNEs. Various perspectives are offered, ranging from absolute convergence (Haire *et al.*, 1966; Harbison & Myers, 1959; Kerr *et al.*, 1960; Likert, 1973; Widing, 1973) to absolute divergence (Child, 1981; Hofstede, 1987; Laurent, 1986; Oberg, 1963). Contemporary thought however, holds that corporate performance requires a

balance between universal organisational and management practices and the preservation of culturally defined values (Adler *et al.*, 1986; Dowling *et al.*, 1999; Nath, 1988; Sparrow *et al.*, 1994). Ralston *et al.* (1993) argue for crossvergence, an integrative approach by which organisations develop an individual value system which satisfies both the internal and external environments.

In addition to the convergence-divergence-crossvergence debate, numerous theories have been presented which attempt to explain the manner in which organisations interact with their wider surroundings. These include institutionalisation theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Selznick, 1957; Zucker, 1988), population ecology theory (Aldrich, 1979; Hannan & Freeman, 1977), resource dependence theory (Child, 1997; Pfeffer & Salancik, 1978) and the resource-based view of organisations (Barney, 1991).

Evidence from the BCL case suggests that, with the exception of population ecology theory, each of the above is flawed because they are founded on the supposition that management is able to influence significantly the internal and external environments of organisations. Through the investigation of a matrix of endogenous factors (organisational and management approaches, management philosophy and organisational culture) and exogenous factors (legal, cultural, economic and political influences) pertinent to the performance of BCL, the present research revealed that management had an extremely limited ability to manipulate the company's environments and therefore had little control over the substantive outcomes of the Panguna mine. This finding is consistent with Pfeffer's (1981) symbolic view of management.

The experience of BCL therefore, supports the argument of Aldrich (1979) and Hannan and Freeman (1977) for population ecology theory. This theory proposes that, in certain circumstances, organisations are restrained by environmental factors which are impervious to management regulation or adaptation. In line with population ecology theory, the outcomes of this study sustain the postulation of the researcher noted in Chapter 2 that, when home-host business conditions are extremely divergent, managerial influence declines. This loss of influence, in turn, renders a deficiency in environmental congruency which exposes the MNE to domination by external forces.

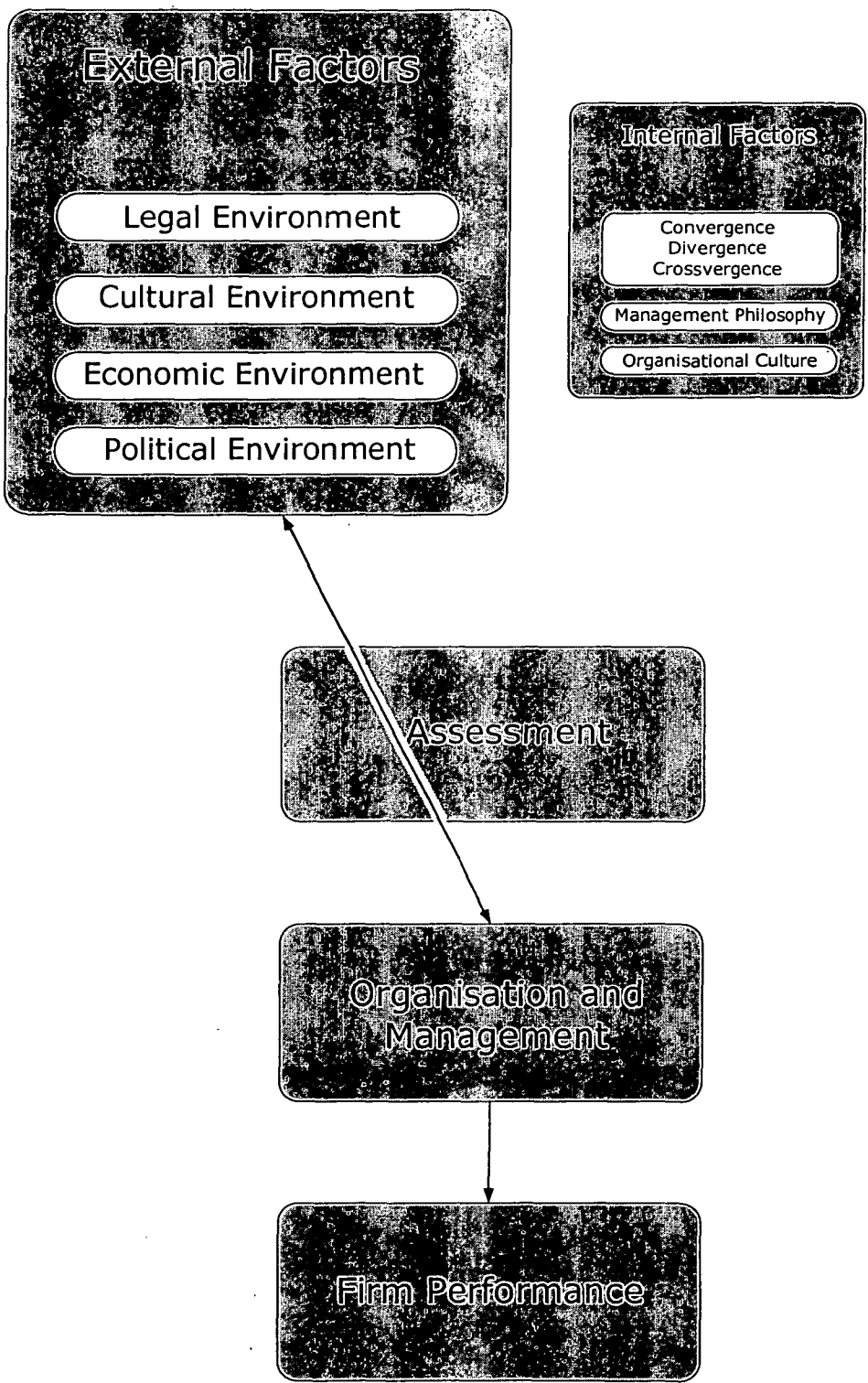
Whilst the findings of this research sustain the models presented in Figures 2.1 and 2.2, they suggest that the schematic representation of significantly heterogeneous home-host business conditions depicted in Figure 2.3 requires

modification. Initially, environmental influences were relatively balanced because constituents of the external milieu were largely amenable to the operation of the mine, and similarly the internal environment was generally acceptable to extraneous elements. As a result, BCL achieved highly satisfactory performance levels. This scenario supports Figure 2.1. As time progressed, external pressures began to force management into changing aspects of BCL's operation. As management was not able to significantly influence these variables, the company's internal environment was amended to accommodate them – but with a resultant decrease in financial performance. This outcome substantiates Figure 2.2. In the final years, the extreme magnitude of external forces made all aspects of BCL's internal environment inconsequential to sustained corporate performance. This situation, in turn, rendered environmental assessment irrelevant because internal–external congruency was not possible; the organisation and management of the company was solely directed by extraneous factors. Hence, a revised portrayal of the impact of heterogeneous home–host conditions on environmental congruence is presented in Figure 8.1. The revised model seeks to acknowledge that, in particular circumstances, factors external to an MNE may be such that they overwhelm completely the company's ability to achieve any degree of environmental congruency. At this point, management is no longer in control of organisational outcomes.

The extreme diversity of BCL's external environment is typical of the business climate in many LDCs (Hoogvelt, 1991; Simpson, 1988). This research has identified divisions between PNG and Bougainville as the cardinal factor in the mine's closure. Because the Bougainvilleans consider themselves to be ethnically and culturally discrete from PNG, BCL had two distinct (and mutually hostile) hosts with which to contend. The company's management recognised this situation, but did not afford it sufficient prominence in the conduct of BCL's business. Relying on Western conventions of respect for formal authority and corporate citizenship, senior personnel regarded PNG, not Bougainville, as the principal host. This was a fundamental error.

The case evidence reveals that BCL's executives were ahead of their time in identifying the need to balance the requirements of management and organisation with prevailing variables in the external environment. Their pursuit for contextual congruity was misdirected, however. This thesis contends that rather than aligning the Panguna operation with the demands and expectations of PNG, management should have focused exclusively on satisfying the needs and aspirations of the Bougainvilleans. It appears that BCL's executives applied

**Figure 8.1     The Impact of Heterogeneous Home-Host Business Conditions on Environmental Congruence (Revised)**



appropriate theory to the wrong subject. It was the islanders who had sacrificed much of their land and cultural tradition for the Panguna mine, yet it was PNG, a country with which these people felt no affiliation, which reaped the bulk of the benefits. BCL's managers were aware of, and sympathetic to, this situation but they were unable to orchestrate substantive changes once the project had commenced. Prior to the establishment of the mine, BCL management should have determined the precise nature of the cultural milieu it was entering and insisted that the company's dealings were primarily with the Bougainvilleans. In the absence of domination by PNG, it is possible that BCL may have realised the environmental fit which the managers sought. Such an approach may have also averted the war, as Bougainville would have been economically and socially, if not politically, independent from PNG<sup>134</sup>.

The failure of BCL's management to recognise the nature and depth of the fundamental divisions between PNG and Bougainville appears to be typical of Western perceptions of LDCs. Whereas the literature acknowledges the intrinsic heterogeneity of many LDCs (Arnold, 1988; Casson, 1994; Harris, 1986; Hoogvelt, 1991), few authorities appear to appreciate that the inhabitants of these countries generally do not embrace the notion of 'nationhood' as defined earlier in this chapter. LDCs are typically multiethnic states in which primary identity does not extend beyond the immediate ethnic group (Connor, 1971). Relating this to the emerging economies of the Pacific region, Manning and Stern (1994:80) note that

[although] institutions are in embryonic form, a host of economic, political, military, and psychological trends suggest that the cherished aspiration – a common psychology of belonging, reflecting shared interests, responsibilities, values and mutual respect – may prove to be a chimera.

By retaining Western concepts of nationhood when dealing with many emerging economies, the management of MNEs remain oblivious to possibly the most fundamental difference between developed countries and LDCs. As the Bougainville case has demonstrated, political and ethnic borders are not necessarily synonymous and without a clear understanding of the distinction between 'host country' and 'host society', the aspirations of MNEs for achieving congruency with their external environment is in jeopardy. Although contemporary research in the field of international business, organisation and

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<sup>134</sup> The practical implications of this recommendation are speculative. In the 1960s Bougainville was subject to Australia's trusteeship of the region, and the island's incorporation into an independent PNG formed part of Canberra's long-term foreign policy. It is highly probable that CRA would have been prohibited from marginalising PNG's involvement in its operations on Bougainville. In this case, the company should not have proceeded with the venture.

management emphasises the importance of MNEs' relationship with the host country, the literature seems to largely overlook the significance of the host society in corporate functioning. This thesis argues that, while the characteristics of the host country constitute the most significant external factors for MNEs operating in industrialised economies, it is the host society which requires close attention by the managers of MNEs operating in the LDCs of Oceania.

The central research question of this thesis concerned the manner in which the experience of BCL might be instructive to the study and practice of MNE management in environments which are significantly different to home country conditions. In this regard, two significant issues emerged from the analysis of the case material. First, the ability of managers from developed countries to manipulate corporate environments in an LDC setting appears to be more circumscribed than it is in the home country. Second, when conducting contextual analyses in LDCs, particularly prior to the establishment of a venture, MNE management needs to place greater emphasis on assessing the host society. Although both the national and immediate environments can be expected to influence organisational performance, ultimately it is the acceptance and support of the local population which determines the success of businesses. In summary, the experience of Bougainville Copper Limited has emphasised the need for MNE management to identify, account for, and react to the often subtle, yet vital, differences between the 'host country' and the 'host society' when dealing with business environments which are significantly different to home country conditions.

These issues may be engaged to extend and integrate *population ecology theory* (Aldrich, 1979; Hannan & Freeman, 1977) and *institutional theory* (DiMaggio & Powell, 1983; Scott, 1987; Selznick, 1957; Zucker, 1988). Although PET is a macro-organisational paradigm focusing on populations of organisations, the BCL case indicates that its fundamental tenets may also be applicable to individual organisations. Because PET assumes aggregates of similar organisations are *the* significant external system in which an organisation is embedded, it neglects the impact which other exogenous variables may have. By retaining PET's emphasis on 'natural selection', but expanding its conception of an organisation's 'ecology system' to include all elements of the external environment, the theory emerges as a micro-organisational paradigm. Within this revised framework, the continued participation of an organisation in its ecological system is viewed as being contingent upon its positive selection by that system on the basis of organisational structure and processes being aligned

with characteristics of the environment. As the BCL case has demonstrated, the environment to which MNE management must adapt may not be restricted to a single contextual dimension, but potentially consists of the totality of all environmental factors. The extension of PET to include all exogenous variables provides for the incorporation of *institutional theory* within its parameters. As the institutions with which organisations must achieve isomorphism are an integral element of the external environment, this consolidation of theories is reflexive. If an organisation is not able to gain (and maintain) similarities with its institutional milieu, it will be excluded from the system.

### **IMPLICATIONS FOR AUSTRALIAN AND PNG GOVERNMENT POLICY DEVELOPMENT**

The findings of this research present various implications for government policy makers in both Australia and PNG. Furthermore, these implications may be applicable to policy development in other countries which encourage MNEs from developed nations to become involved in Oceania.

The evidence which has emerged from this study indicates that the 'Bougainville Crisis' may be attributed to the confluence of a number of disparate and long-standing issues, however much of the tragedy may be ascribed to BCL's home and host countries. By the early 1960s, Australia was 'preparing' PNG for eventual independence, and Canberra regarded the Bougainville mine as an integral part of the emerging country's economic and financial viability (Griffin, 1990b; Oliver, 1991; Quodling, 1991). This conviction persisted for the life of the mine, and partially explains Australia's resistance to Bougainville's fight for independence (Dorney, 1990; Martin, 1974). Throughout BCL's tenure on the island, Australian foreign policy failed to appreciate the Bougainvilleans' objection to unity with PNG, their attitude towards the laws governing the mine (which were established under Australia's administration) and, in particular, their resentment over PNG's retention of the bulk of the revenue from the Panguna mine. Conversely, the PNG government appears to have understood the sentiments behind the islanders' discontent and chose to ignore the people and their grievances. As noted previously, the main concerns of the PNG government were the continuance of Panguna's contribution to national income and the precedent which Bougainvillean secession would set for the other ethnic groups which constitute the country's tenuous federation.

## Implications for Australian Government Policy Makers

The relationship between Australia and PNG is unique. Based on political, strategic, economic and humanitarian concerns, Canberra has an enduring and deep commitment to PNG's development. No other donor country allocates as large a proportion of its total aid to a single recipient. In 1988, the year in which the 'Bougainville Crisis' erupted, PNG received 29 per cent of Australia's overseas aid expenditure. Between independence in 1975 and 1988, Australia provided PNG with A\$3.7 billion (US\$5 billion) in aid. This sum represents 17 per cent of the PNG government's financial resources over this time period. The focus of Australia's program is general economic assistance (budgetary support), civilian aid (mainly in the areas of assisting state enterprises and developing the country's health, works, education, police and justice systems) and defence cooperation (*Australia's Development Cooperation Program with Papua New Guinea*, 1989; Evans, 1990a). However, Australia's assistance is not unconditional:

Shortly before independence [Australian PM] Whitlam wrote to [PNG Chief Minister] Somare that a "united PNG would have first call on Australian aid". The implication was clear – to qualify for aid PNG had to find from its own physical and psychological resources the capacity to maintain its own unity (Hastings, 1976:40).

Australia's extensive financial and political involvement in the development of its only 'colony' appears to have been exercised in an atmosphere of ignorance and arrogance. As recorded earlier in this thesis, PNG does not conform to Western concepts of 'nationhood'; it is a mass of land inhabited by 700 diverse ethnic groups with little identification with each other and even less with the country's illusory 'statehood' (Lafitte, 1993; Oliver, 1991; Polomka, 1990a). Yet Canberra has persistently assumed that independence and the introduction of representative government have somehow galvanised the Papua New Guineans into an integrated people. According to Mulgan (cited in Lawson, 1993:63) such assumptions are typical of Western political perspectives whereby "democratic principles take the existing boundaries of a state as given, and then urge political equality among the inhabitants of the state". Based on this premise, Australia's dealings with PNG have been guided by orthodox international relations; that is, bilateral agreements are made between central governments on the presumption that, in a democratic system, these bodies represent the population. This abstraction does not hold in PNG's fragmented political community, particularly on Bougainville. Rather than cementing PNG-Bougainvillean relationships, independence in 1975 increased extant divisions. Huntington (1996:39) attributes this reaction to the 'democracy paradox': "when non-Western societies adopt Western-style elections, democracy encourages and often brings to power



nativist ...political movements. Democracy tends to make a society more parochial, not more cosmopolitan". Disregarding prior Bougainvillean attempts to secede and seemingly oblivious to the islanders' almost passionate hatred of the Niuginians, Australia accelerated PNG's independence which resulted in the unilateral inclusion of Bougainville in the new state. Describing the political atmosphere of the day, Dorney (1990:48) reports:

In the end, independence came with a rush. It was handed over before any mass struggle arose. Despite the political skirmishes on the Gazelle Peninsula and Bougainville, a majority of Papua New Guineans were not demanding their freedom [but the Australian ] Government was keen on a timetable.

Central to Australia's plans for PNG autonomy was the provision of a means by which the emerging country could finance the machinery of government. Of this, Dorney (1990:48) notes:

Writing in 1964, eleven years before independence, [Australian Minister for Territories] Paul Hasluck said that he was 'quite certain' in his own mind 'that a form of self-government will come to Papua and New Guinea before the country is economically viable... Someone other than the people of Papua and New Guinea will have to underwrite self-government.

As a consequence, Australian government policy makers encouraged CRA to establish the Panguna mine as the central plank of national development without any regard for the social and cultural realities of the country it was purporting to assist.

The issue of the islanders' desire for development has received scant consideration in the literature. It is significant however, that those who have expressed doubts about the need for 'progress' on Bougainville are Father Momis (refer 'Bougainville Initiative', Appendix P) and a former BCL manager (refer Chapter 7). While it is paradoxical that these adversaries should be in accord over such a fundamental issue, it is a question which Australian policy makers appear to have overlooked for nearly thirty years. Canberra's vision for PNG's development – which, by default, includes Bougainville – seems to have been founded on an assumption that the indigenous people want or need a society fashioned after the European model. Canberra presumed that the Papua New Guineans must follow Australia's progression to a liberal, democratic, capitalist state. This stance not only reinforces Australia's inability to comprehend PNG's social arrangements, but also displays a degree of arrogance in ignoring the validity of other cultural forms. Gabriel (1972) and Simpson (1988) contend that such an approach is common when DCs become involved in the economic and political affairs of LDCs. A theme which has repeatedly emerged from this research is the Bougainvilleans' desire for isolation, a central element of which

is a rejection of Westernisation. Australia has yet to realise that the Bougainvilleans are economically self-sufficient – according to their own definitions.

Australia's foreign policy contributed to Bougainville's dilemma. In its drive to stimulate the PNG economy and its unequivocal support for Port Moresby, Canberra ignored the Bougainvilleans and their escalating grievances. Only when the revolt started did Australian policy makers consider the islanders, by which time their only focus was on ending the hostilities<sup>135</sup>. This reactive approach was too little, too late; the relationship between the Bougainvilleans and their former trustee was seriously impaired and New Zealand became the central peace broker. With Bougainvillean autonomy imminent<sup>136</sup>, Australia has an opportunity to review its association with the island's population and, in time, instigate political, economic and trade relationships appropriate to the people with whom it is dealing.

Two considerations for Australian foreign policy development may be inferred from this thesis. Concerning its general relationship with PNG, Canberra needs to understand the extreme heterogeneity of its nearest neighbour. In the Western tradition, Australia's arrangements with PNG are conducted through the national government in Port Moresby on an assumption that the parliament's authority is accepted by the populace. This assumption is flawed; the primary loyalties of the Papua New Guineans lie with their particular ethnic groups, few of which recognise the legitimacy of the central government. In dealing with PNG therefore, foreign states need to secure community acceptance as well as that of the national parliament. For Australia to have an effective role in PNG's development, Canberra must provide local people with an opportunity to participate in the making of any policies which have an impact on their community. Concerning its trade relationships with PNG, Canberra needs to be more involved in Australian companies operating (or seeking to operate) in PNG. Rather than encouraging companies to do business in PNG and then

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<sup>135</sup> It appears that Australia's approach to regional affairs has not changed significantly over the past decade. In 1998 civil war erupted in the Solomon Islands; Bougainville's nearest neighbour. At that time, Solomons Prime Minister Bart Ulafa'alu sought help from Australia - but to no avail. Following a coup which saw Ulafa'alu deposed, Australia evacuated its citizens and barred Qantas from flying to the islands. Of Canberra's refusal to intervene, Ulafa'alu noted "The problem has been that Australia and New Zealand only respond when there is a crisis; they don't take preventative measures" (Cited in Bohane, 2000).

<sup>136</sup> The legislative package designed to give Bougainville greater autonomy and a guarantee of a referendum on complete independence is expected to pass through the PNG parliament by the end of 2000. However, PNG Prime Minister Sir Mekere Morauta has stated that passage of the legislation is contingent upon the BRA guerrillas surrendering their arms.

leaving expatriate executives to determine how they might achieve corporate goals, the Australian Trade Commission (Austrade) should provide practical assistance in dealing with both Port Moresby and the relevant indigenous groups. Given the complexity of PNG's political, economic and social environment, it is not sufficient for Austrade to merely provide Australian MNEs with information; the Trade Commission needs to establish mechanisms through which Australian companies, the PNG government and local communities can consult and formulate strategies which are acceptable to all parties.

### **Implications for Papua New Guinean Government Policy Makers**

PNG's independence was accompanied by the adoption of a Westminster parliamentary system which replaced direct administration with representative democracy. A principal aim of this move was to "head off secessionist demands and to satisfy the large number of diverse ethnic groups" (*Australia's Development Cooperation Program with Papua New Guinea*, 1989:5) and assist "the standing of Papua New Guinea as an independent country, well able to manage its own economic affairs" (Blewett, 1991:543). When the civil war broke out on Bougainville in 1988, these aspirations had not been achieved. The country's wealth was tied to natural resources which are vulnerable to fluctuating global markets, its infrastructure was inadequate, business was dominated by foreigners, the government was overly dependent on Australian aid, and 90 per cent of the population lived in traditional ethnic groups reliant on a subsistence economy (Dorney, 1990; Oliver, 1991). The situation had not changed substantially a decade later<sup>137</sup>; after nearly 25 years of sovereign rule, PNG has not been able to realise significant levels of development.

Whilst the slow pace of development in PNG may be attributed to various diverse factors, the BCL case highlights a number of fundamental issues which the central government must address if the country is to attract and maintain MNE investment. This research has revealed that the root cause of the Bougainville revolt was the discordant relationship between Port Moresby and the islanders. Although both parties must accept a measure of responsibility for the tragedy, ultimate liability rests with the PNG government's inappropriate and insensitive administration of the province. Official policy was focussed entirely on Bougainville's contribution to the development of the country; it ignored the

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<sup>137</sup> A 1998 analysis of PNG's economic and social conditions revealed that the above-mentioned difficulties continue to inhibit the country's development (ABC TV, 23 January, 1998).

Bougainvilleans' history, culture or aspirations, and expressly excluded any mechanisms for consultation with the locals. Under such conditions, popular dissatisfaction and political agitation were inevitable. As noted throughout this thesis, Panguna's management was cognisant of, and sympathetic to, the islanders' concerns, but was powerless to act. In summarising this situation, Oliver (1991:198–199) reports:

BCL officials were well aware of the inequities, as Quodling had acknowledged in his 11 May reply to Momis [refer Appendix P]. Unfortunately for both the province and the company, the latter was legally bound by terms of its current Bougainville Copper Agreement to address such issues only with the national government during the periodic reviews of the agreement... The reviews, however, had been indefinitely postponed, largely because of the national government's refusal to include representatives of the province in them. The grievances which gave rise to the Bougainville Initiative were real and substantial...

The Bougainville revolution has been the most serious and destructive crisis to have occurred in PNG since WWII. Apart from the human and financial costs, the war has weakened PNG's tenuous federation of provinces and gravely affected the country's relations with neighbouring countries, trading partners, present and potential investors, aid donors and intergovernmental organisations such as the United Nations, the World Bank, and the International Monetary Fund (Moriarty, 1998). The restoration of peace has taken a decade, and reconstruction has not commenced. From the evidence presented in this thesis, it is apparent that policy development and execution in PNG, especially regarding internal affairs, needs to be carefully analysed and revised. The following points appear to be particularly pertinent:

- The government should aim to improve its relationship with the provinces by committing itself to the principles of the constitution which it purports to serve. As noted in Chapter 4, the constitution holds freedom of speech and equality as integral factors in PNG's social, political and economic life.
- Agreements with companies, whether domestic or foreign, which impact on the life of PNG citizens should be developed by way of tripartite consultation between the government, the company, and those affected by the operation. Once satisfactory arrangements have been reached, ongoing communication between the three must be sustained in order to address changing conditions.
- Avenues for guaranteeing the rights of landowners subject to development projects need to be established. These initiatives should recognise the contribution which the landowners are making to national and local development, provide them with shares (stock) in the venture, secure their input to the management of their land, and mandate compensation formulae based on relevant and equitable standards.

- Within specified limits, communities which host developmental projects should (i) have first call on government revenue generated from the area, (ii) have priority in indigenous employment opportunities provided by the venture, and (iii) have preference in securing local businesses which emerge from the presence of the central project.
- PNG needs to investigate ways in which it may reduce its reliance on the export of resources. The closure of BCL and the impending withdrawal of BHP from Ok Tedi (refer Chapter 6) have threatened the country's economic viability.
- Environment protection legislation needs to be enacted to guard against the destruction of the country's natural and cultural heritage.
- The parliament must resolve civil tensions through negotiation and political process rather than by confrontation and armed intervention.

In broad terms, the PNG parliament must re-assess its attitude towards governing its people. Although the country has a representative democracy in place, those in power appear to have retained an attitude more akin to the direct rule of former colonial administrations. The Westminster system affords all citizens a voice beyond those of their elected representatives, and Port Moresby must grant all PNG's people equal rights and opportunities if the country is to realise its political, social and economic goals. The policies applied to Bougainville were oppressive and inequitable, and led the country into a disaster from which it has yet to recover.

### **IMPLICATIONS FOR MANAGEMENT PRACTICE IN MULTINATIONAL ENTERPRISES**

Whilst the ability of researchers to apply the outcomes of a single case study to wider populations is limited (refer Chapter 3), a number of the findings of this inquiry appear relevant to the management of MNEs operating, or seeking to operate, in LDCs. A degree of generalisation is possible because, as noted in Chapter 7, BCL exhibited various characteristics common to Western-based MNEs, and PNG is representative of many LDCs across a broad range of indicators. The implications which arise from this study focus on the influence which environmental variables have on managerial practice.

The primary theme of this thesis is the impact which the external and internal environments of MNEs have on corporate performance. The exogenous factors examined in this study include legal, cultural, economic and political variables.

It was determined that these variables, within the context of ethnically heterogeneous states, operate at both the host country level and the host society level with each party holding widely divergent perspectives on each variable. In effect, this situation presents the management of MNEs with two distinct, and often opposing, external environments with which to deal. As a result, the task of aligning organisational variables with the company's surroundings becomes problematical in the extreme. In the case of BCL, management was unable to adjust its operations sufficiently to meet the antithetic demands of its dual hosts. Concerning the influence of endogenous factors on the wider environment, this study found that many key aspects of BCL's approach to organisation, management philosophy and organisational culture had an adverse effect on the company's operating milieu.

On the basis of evidence from the BCL case, it is proposed that MNE management needs to exercise utmost caution when considering the establishment or continuation of operations in LDCs. The population of many emerging economies remain fragmented in the extreme, with communities characterised by cultural, religious, ideological, economic, institutional, political or language based divisions. Such parochialism militates against a universal sense of identity and a recognition of the benefits which might accrue from an integrated nation. Under these conditions, ethnic distinction has "a powerful capacity to create its own history, boundaries, and a sense of grievance against the larger society" (May, cited in Lawson, 1993:65), invariably leading to secessionist demands (Connor, 1971). If separatist sentiments gather sufficient momentum, the central government has little substantive influence over those who identify themselves as members of a 'breakaway' ethnic group. This schism within a country creates a treacherous situation for MNEs, as management is bound to act according to the authority of the state but must work with those who eschew such authority. In effect, the MNE is caught in the confluence of official and illegitimate powers and is unable to rely on either for support. Isolated from the institutions and resources upon which it depends, the company is virtually paralysed and sustained performance is not possible. An attendant risk in this situation is physical attack by a belligerent party or being enmeshed in a war between two factions.

Based on the above, it is argued that the issue of ethnic distinction is a key consideration for the management of MNEs involved in certain LDCs. Companies conducting environmental analysis, whether in regard to the establishment, continuance or extension of operations, must account for the

ethnic consciousness of the host country. Notwithstanding, Connor points to the difficulties associated with such an undertaking, noting that it is not possible to predicate a group's fundamental identity on overt elements such as language, religion, customs, economic inequity, and so forth:

[The] reason for failure of authorities to pay proper heed to ethnicity [is their] tendency to perceive ethnic nationalism in terms of its overt manifestations rather than in terms of its essence... Because the essence of the nation is a matter of attitude, the tangible manifestations of cultural distinctiveness are significant only to the degree to which they contribute to the sense of uniqueness. Indeed, a sense of vital uniqueness can come about even in the absence of important, tangible cultural characteristics of a distinctive nature... (1973:336–337).

Thus, ethnic distinction may not be detected by those involved in an MNE's environmental analysis due to its inherently abstract nature. Further, Connor (1973:336) warns that, even when this characteristic is identified, its "emotional power" is usually underrated. As demonstrated in the BCL case, management's inability to fully understand the constitution of, and passion associated with, ethnic distinction has the potential to severely impact on corporate performance.

Assuming that the management of an MNE is able to recognise and fully comprehend the substance of the ethnic identity of a relevant community in a socially heterogeneous LDC, legal matters must be shaped to the satisfaction of that community. As discussed above, such groups have scant regard for the authority vested in the state, and therefore contracts and agreements between the company and the national government are of little practical consequence. Management must ensure that the terms under which it operates are equally acceptable to the host society and host country; if this condition cannot be realised, the venture should not proceed or the MNE – if established – should withdraw from the country. Whilst the latter would be extremely costly, it is a more economic option than becoming involved in a significant local conflict.

A consistent finding of this study has been the integrity and fairness with which BCL's management acted towards the host country and the host society. While remaining politically neutral, successive executives actively sought avenues through which the mine might assist PNG and Bougainville in human and economic terms. The success of these endeavours are recorded in this thesis, however corporate magnanimity brought few returns to BCL in the long term. The Bougainvilleans expelled the company, and PNG diverted attention from its own failings by blaming the mine for revolution:

The central government was hopeless throughout the whole affair. They did virtually nothing. Of course, when the whole thing blew up, they had to find a scapegoat and who better to blame than the company? The whole country ended up blaming Bougainville Copper for the situation, even the other mining operations - Porgira, Ok Tedi, you name it. The government was happy to say that the Bougainville

Crisis was all our fault. Somare, and Chan, with whom we had had very good relationships over the years, blamed us almost entirely for the trouble. They refused to accept any of the responsibility for themselves (Former BCL executive, personal communication, 1998).

A less apparent outcome of Panguna's closure is the private anguish experienced by those who managed the mine. One past executive revealed a little of his grief during a discussion following a formal interview with the researcher:

...I can only try to explain what happened on Bougainville, but really I don't know how things could have gone so wrong. We tried so hard, all of us did. I've had ten years to think about it, and I've told you what we might have done differently, but I honestly don't think we could have done more for the Bougainvilleans... or for Papua New Guinea for that matter. It's sad (Personal communication, 1998).

Events on Bougainville reinforce the need for MNE management to give greater attention to ecological issues. The management of the Ok Tedi mine, operated by BHP<sup>138</sup> in the PNG highlands, appears to have learned little from BCL's environmental mistakes, yet has more advanced technology at its disposal. The tailings from this mine have devastated the Ok Tedi–Fly River system in much the same manner as Panguna degraded the Kawerong and Jaba rivers on Bougainville and massive claims for compensation have been made by local landowners (ABC TV, 2000). The collapse of a tailings dam at an Australian managed mine in Romania (noted earlier in this Chapter) is further evidence of environmental damage occasioned by an MNE. Although mining is inherently harmful to the environment, the mining industry as a whole appears to be slower than other industries in developing technology capable of lessening the ecological impact of its processes. It is contended that mine management (at both the corporate and industry level) needs to address the environmental issue as a matter of urgency.

## IMPLICATIONS FOR THEORY DEVELOPMENT

The findings of this study, as presented in the research questions, point to a number of implications for theory development concerning the management of MNEs, particularly with regard to Oceania.

Chapter 2 provided a review of theories and studies which inform the management of MNEs. While the extant literature recognises the complexity of coordinating resources and actualising corporate goals in disparate legal, cultural, economic and political settings, the primary focus remains on

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<sup>138</sup> At the time of writing, BHP (Australia), Inmet (Canada) and the PNG government hold respectively 52, 18 and 30 per cent shareholding in the Ok Tedi project (BHP, 2000).



managing companies hosted by relatively developed countries. Presumably, the logic of this emphasis may be attributed to the concentration of MNEs from developed countries which invest in other advanced economies (Phatak, 1997; Vernon & Wells, 1986). The growing economic importance of emerging countries however, warrants more academic consideration of managing MNEs in LDCs. This thesis has examined the principal elements in which the business environment of Oceania varies from that typically found in industrialised nations. As these differences were shown to have had a significant impact on all functional and strategic areas of corporate management, there is a need for greater understanding of their nature and their potential influence on MNE performance. Using existing theories and concepts of MNE management to construct a framework by which PNG and Bougainville may be analysed, this thesis has helped to clarify those variables which distinguish between the developed and developing country management context. As the Bougainvilleans represent one ethnic group among the diverse LDC communities of the world, it is not possible to make broad generalisations from this research. However, the study has accented a number of salient characteristics of the Melanesian business environment which may be adapted to the identification of variables in other LDCs that are critical to the management of MNEs which originate from developed economies.

There is an abundance of literature emphasising the need for management to regulate endogenous and exogenous variables in order to achieve an alignment between companies and the wider environment (for example, Bowden, 1985; Burns & Stalker, 1961; Davis *et al.*, 1987; Galbraith, 1974; Lawrence & Lorsch, 1967; Lengnick-Hall & Lengnick-Hall, 1988; Milliman *et al.*, 1991; Thompson, 1967; Wright & Snell, 1998). Various organisation theories are also based on the concept of environmental fit. These include institutionalisation theory (Selznick, 1957; Scott, 1987; Zucker, 1988), resource dependence theory (Child, 1997; Pfeffer & Selancik, 1978), and the resource-based view of organisations (Barney, 1991). The common assumption of congruency approaches is that management has the ability to significantly change elements in the internal and external environments of organisations. In addressing Research Question 1, this thesis investigated the extent to which BCL's internal and external operating environments were amenable to manipulation by the company's management. It was found that both environments were essentially resistant to management influence. Evidence from this case study suggests therefore, that perspectives of management and organisation based on environmental alignment cannot necessarily be sustained when companies are

exposed to environments which are substantially different to that of the home country. This outcome is particularly pertinent to organisations from developed economies which seek to operate in LDCs, given the unique nature of the general and specific environments found in many emerging countries. As symmetry between the characteristics of organisations and the characteristics of their environments may be unachievable in certain LDCs, this thesis argues for further investigation and the refinement of theory concerning environmental assessment and management in the LDC context.

In contesting the universal applicability of paradigms which endorse the premise that management has substantive control over contextual variables, this research has corroborated the basic tenets of population ecology theory. This theory reasons that analogous organisations form populations, and that continued participation in that population depends upon each organisation's ability to compete. In dynamic or unstable environments, some organisations cannot compete because management is unable to influence sufficiently the prevailing internal or external environment. When this occurs, the organisation withdraws from the population (Aldrich, 1979; Hannan & Freeman, 1977). Population ecology theory does not fully account for BCL's experience however, as the theory contends that aggregates of organisations can sustain only a certain number of entities and those which cannot compete with others in the population will not survive. This suggests that organisational populations represent the key conception of the environment. In BCL's case, the activities of similar organisations did not impact on the company, rather uncontrollable forces from other areas in the external environment led to its demise. Theories based on environmental determinism therefore, need to be expanded so as to consider the organisational milieu as a broader construct than just the relevant population. Thus, while evidence from this study has strengthened the theoretical foundations of the population ecology paradigm, it has also revealed that greater precision is needed if the environmental determination approach is to realise its potential contribution to theory and research in the management and organisation of MNEs.

### **IMPLICATIONS FOR FURTHER RESEARCH**

As reported in Chapter 3, Bailey (1994) has called for increased international management research in Oceania. This study has contributed to the small body of literature on the subject by investigating the management of a significant mining venture in PNG through a series of broad questions based on qualitative

research methodology. Evidence provided by the inquiry has been used to review a number of international management and organisation theories within the context of the emerging economies of the South-west Pacific, and various conclusions have been drawn. These include:

- i) The ethnic heterogeneity of the region's population precludes the adoption of one particular model of management and organisation, rather senior personnel need to focus their approach on the immediate society.
- ii) Variables in the external and internal operating contexts of MNEs have a significant, and often deleterious, impact on each other.
- iii) The nature and interaction of these incompatible variables remain largely beyond the control of management, and thus constrains the capacity of companies to actualise the environmental alignment required to maximise corporate performance.
- iv) As a result of management's inability to significantly influence its environments, the activities, accomplishments and ultimate survival of MNEs are subjugated to the vagaries of extraneous forces.

These conclusions highlight numerous difficulties confronting MNE management in the region and suggest that further research in this subject is necessary. In particular, they indicate the need for the refinement of theories relating to the management of MNEs from developed nations which seek business opportunities in Oceania. The people of the Pacific islands are accustomed to a level of human diversity which does not readily suit Western models of management and organisation. This presents a significant challenge to researchers because, as Manning and Stern (1994) have noted, it is unlikely that these communities will achieve the unity (at either the national and supra-national level) which is assumed in traditional approaches to management and organisation, and therefore it is management scholars and practitioners who must cross the cultural and socioeconomic divide. If the mutual benefits of international business are to be realised in Oceania, management research must be pitched at seeking alternative directions and strategies.

In devising an expanded research agenda to consolidate extant literature and advance international management theory applicable to the region, future inquiry might extend the investigations undertaken in this thesis. As this study was restricted to the examination of a particular MNE in one province of PNG, several opportunities for further research are indicated. First, the findings of this thesis could be validated within the context of other areas in Oceania. By conducting comparative analyses across various regions of different countries,

theories of international management may be refined and/or substantiated, and the generalisability of this study would be enhanced. Second, this investigation was limited to one MNE. This company displayed certain properties which might not be common to all organisations operating in the South-west Pacific. Of particular significance is BCL's Australian heritage which strongly influenced the behaviour of management. The examination of non-Australian companies – from both developed countries and other LDCs – may expose diffuse, culturally based managerial approaches which, in turn, could clarify the impact of MNEs' nationality on their relationship with the local and national population. Third, this study focussed on the mining industry, which is subject to controversy irrespective of the location in which it operates. Research into the management of MNEs in other sectors may highlight the degree to which mining, by its nature, affects the involvement of foreign companies in the countries of Oceania. Fourth, because each dimension of the MNE external environment is evolving continually, the nature of the relationship between companies and their host country and host society is in a state of flux. A longitudinal study to examine this aspect of international management in Oceania over time seems appropriate. In this regard, an investigation into surviving foreign resource extraction ventures in PNG is suggested; for example, Ok Tedi (copper and gold), Misima (gold and silver), Porgera (gold) and Hides (gas).

Finally, academic and practical benefits may be gained from conducting further research into the mining of copper on Bougainville. Approximately half the mineral lode had been exploited when the project was abandoned, and at various times since, BCL, the PNG government, the Bougainvilleans and other parties have expressed conditional interest in resuming operations. Should production resume, the organisation of the 'new' operation (whether Bougainvillean, Papua New Guinean, or foreign) would provide a conclusion to this inquiry. By comparing and contrasting the findings of this thesis with data from contemporary approaches to the governance of the mine, a decisive resolution to the questions surrounding the 1963–1989 management of the Bougainville mine may be achieved.

## **LIMITATIONS OF THE RESEARCH**

As with all research endeavours, the findings of this inquiry need to be assessed in relation to the inherent limitations of the chosen methodology. It was noted in Chapter 3 that the case study approach was the most suitable methodology for

this thesis because of the exploratory and explanatory purpose of the research, and the theory building focus of project (Eisenhardt, 1989; Yin, 1994). It was also acknowledged in Chapter 3 that case study methodology has been censured for lacking rigour, particularly with regard to a validity and generalisability (Guba & Lincoln, 1981; Hamel *et al.*, 1993; Stake, 1994). In this thesis, a number of measures have been employed to address these criticisms and to ensure that the research is as rigorous as possible.

Concerning the construct and internal validity of the study, the possibility of researcher bias was minimised by the progressive application of numerous verification tactics during the interpretation process. These are detailed in Table 3.3, and are based on the recommendations of Leininger (1987), Miles and Huberman (1994), Sowden and Keeves (1988), Tuckman (1972) and Wilson (1985). The interviewees' familiarity and intimate involvement with Bougainville and the Panguna project provided an ample, accurate and 'rich' source of information which further ensured the validity of the research (Patton, 1990). Notwithstanding, it is recognised that bias on the part of the informants or the researcher is a possibility in all qualitative inquiry (Goode & Hatt, 1952; Neck *et al.*, 1996; Miles & Huberman, 1994), and that the research would have been enhanced had more of the potential respondents identified in the protocol been willing to assist in this study. The outcomes of this thesis could be authenticated by re-examining the management of BCL using broad-scale survey research, and comparing and contrasting the findings of each study.

With regard to the external validity of the research, this thesis makes no claim as to the universality of the findings. Because the study focussed on MNE management in Oceania, the applicability of its outcomes is restricted to emerging economies in that region. The purpose of case study research is to generalise findings to theory rather than to generalise findings to populations (Barnard *et al.*, 1987; Michelson & Baird, 1995; Yin, 1994). This study has used the outcomes of the Bougainville case to generate theory concerning the management of foreign companies in Oceania. This theory, which amplifies and amalgamates extant paradigms, may form the foundation of further research which could be extended to investigate MNE management in other LDC contexts.

## SUMMARY AND CONCLUSION

The primary aim of this research was to provide a broader understanding of the management of MNEs, with particular emphasis on companies from developed nations involved in the diverse island communities of Oceania. Using a single case study approach, this inquiry investigated the key environmental factors responsible for the early success, but ultimate failure, of BCL – operators of one of the world's largest copper mines located on Bougainville in PNG's North Solomons Province. Specific attention was focused on the manner in which successive BCL executives approached the unique difficulties presented by the host country and the host society, as well as the limitations imposed by the company's enduring culture. In this manner, the thesis has sought to address the paucity of research on MNE management in the emerging South-west Pacific region.

The findings indicate that the fragmented nature of society in Oceania presents MNE management with a range of challenges which cannot be addressed by importing the organisational and managerial approaches which are employed in the home country. This study sustains the proposition of Ralston *et al* (1993) that organisations need to develop value systems specific to their environment but, because 'nationhood' cannot be assumed in these countries, management must adopt a very narrow view of the environment. Organisations should forge their primary relationship with the immediate society rather than with the host country. Failure to accomplish this has the potential to inhibit corporate performance or, in the worst case, destroy the MNE. Achieving this relationship may be difficult however, as the research has also concluded that, in certain circumstances, management has very little influence over vital elements of both the internal and external environment. If the characteristics of an MNE are not intrinsically amenable to the local situation, it is doubtful that they can be adjusted sufficiently to align with the demands of the wider milieu. In the absence of absolute internal-external congruency, the company is at risk of being overwhelmed by external forces.

The concluding chapter has provided an overview of the thesis, a summary of the findings of the study and their implications for home and host country government policy development, management practice, theory development and further research related to the management of MNEs in Oceania in particular and LDCs in general. It is argued that this thesis has provided a contribution to the literature on international management.

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## **APPENDIX A**

**Case Study Protocol  
used to guide the design of  
the research, data gathering,  
and format of the thesis.**

## OVERVIEW OF THE RESEARCH

### Proposed Title of the Research Project

The Establishment, Operation and Subsequent Closure of the Bougainville Copper Mine: A Case Study in International Management.

### Focus of the Study

Drawing on the case of the Panguna copper mine on Bougainville, the research aims to develop theory and understanding of managing environmental variables in multinational enterprises (MNEs). A preliminary review of the literature revealed that corporate performance depends on management's ability to align the firm's internal and external environments, and that this alignment becomes a more critical success factor the more host country business conditions differ from those experienced in the home country. The literature also suggests that, as host and home operating contexts diverge, external factors will exert increasing pressures on firms which make environmental alignment more difficult to achieve. It is therefore logical to suggest that, at some point, an MNE's external environment may become so divergent from its home country that the firm will not be able to adapt its internal operations sufficiently to meet the demands of that environment. In these circumstances, firm performance will be severely diminished. The internal and external elements which influence firm performance in divergent environments represent the issues to be investigated in this inquiry. These elements are listed below.

<b>Legal environment</b>	<b>Organisational environment</b>	<b>Economic environment</b>
Financial operations	Con-cross-divergence	Natural resources
Employment rel'ships	Management philosophy	Labour
Natural resources	Organisational culture	Technology
		Infrastructure
<b>Cultural environment</b>	<b>Political environment</b>	<b>Other environmental factors</b>
Social organisation	Stability	Geographic features
Materialism	Nationalism	Historical influences
Language	International rel'ships	Ecological issues
Modes of thinking		

The study will examine the experience of Bougainville Copper Limited (BCL) in order to determine the relative influence the above factors have on the

performance of an MNE operating in a business climate which is significantly different than that of its home country. Taking a qualitative approach, the inquiry is open to any patterns and relationships which emerge from the data, and is descriptive, exploratory and explanatory in its purpose.

### **Problem Definition and the Research Questions**

Although the history of the Bougainville mine will be treated as a single entity in this thesis, that history unfolded over time and within the framework of the environmental issues listed above. While these contextual elements will be examined individually during the research, their interrelatedness with each other and with the overall history of the mine will be observed in order to preserve the unitary character of the case (Guba & Lincoln, 1981).

The research implication of a simultaneously holistic and contextually based approach is the need to interpret the meanings which the actors ascribe to their own behaviour and to the behaviour of others, within the context of the underlying structures and perceptions of the situation (Stake, 1994). As these abstractions and concerns will only become apparent in the course of the inquiry, they will emerge as the problems which the study seeks to address. The identification of these problems will, in turn, define the research design (Burgess, 1982a).

To access these problems, the following central research question has been established:

*In what ways might the experience of Bougainville Copper Limited be instructive to the study and practice of MNE management in environments which are significantly different to home country conditions?*

Based on this question, a series of sub-questions will be developed so as to address the exploratory purpose of the inquiry.

## **CASE STUDY PROCEDURES**

### **The Focal Case Study**

The BCL case was identified for research in this thesis because it meets the criteria which emerged from the objectives of the study. These criteria are:

- the parent of the subject company is a long-established and successful MNE with considerable experience in operating within diverse environments;

- the majority of senior and middle-level management positions were held by expatriate personnel;
- the mine was located in a developing country with an operating environment dissimilar in most respects to that of the company's home country;
- the legal, cultural, economic and political consequences of the company's presence and operations are clearly evident in the case; and
- because the mine has closed, the BCL case presents a complete historical unit in which each phase of the company's life-cycle can be investigated.

### **Accessing Data**

For three reasons, case information will need to rely primarily on documentary evidence. Firstly, the case is historical and therefore access to all key actors is not possible. Secondly, as Bougainville is an active war zone, contact with the islanders or inspection of the mine site is prohibited. Thirdly, the case is well documented from the perspectives of all protagonists. Notwithstanding, data from documentary records will be augmented by first-hand information. To this end, an approach will be made to the following potential informants:

- CRA Limited;
- the executive responsible for the establishment of mine in the early 1960s;
- senior managers involved with Panguna's operation and closure;
- journalists who reported on PNG, Bougainville and the mine before, during and after the crisis;
- a critical observer of Bougainville who is opposed to both the involvement of PNG in the island's affairs and the presence of the mine;
- an executive of BCL's bankers who had a long association with the company and who maintained a personal interest in Bougainville and its people; and
- an academic widely published in Melanesian affairs, particularly the Bougainville situation.

Because the case material may be personally and/or professionally sensitive to former mine executives, initial contact will be made through the offices of the Australian parent of the mine. A letter will be forwarded to CRA inviting any interested person to contact the researcher. As this method leaves participation entirely to the discretion of any interested parties, it is considered preferable to making direct contact with specific individuals.

Informants will be asked to participate in largely unstructured interviews. While the interviews will focus on salient issues emerging from the case report and

literature review, the essential content of the sessions will be determined by the participants. The manner in which the interviews will be recorded (i.e. tape or written notes) is dependent on the informants' preference. Irrespective of the recording medium, the material will be transcribed immediately following the interview so as to preserve the detail of the exchange, and to aid analysis.

## **Research Design**

Based on the recommendations of Denzin and Lincoln (1994) and Yin (1994), the following elements will constitute the research design.

### *The Research Questions*

The primary determinants of the research design will be the research questions (Kerlinger, 1986), augmented by the problems which become evident during the course of the inquiry. As the reasons for wanting the questions answered should also be considered in the research design (Allan, 1991), the objectives of the study will also be taken into account.

### *Units of Analysis*

Having established the research questions, it will be possible to specify the particular elements (units of analysis) to be investigated in the study (Babbie, 1989). The primary unit of analysis will be the management of an MNE operating in an unfamiliar environment. The environmental entities will be the firm's (i) external influences (the host society and other extraneous parties) and (ii) internal influences (its organisation and management); these will constitute the secondary units of analysis. The respective attitudes, values and behaviours of the actors will form subordinate units of analysis, the characteristics of which will be determined from the data which emerge from the case.

### *Linking Data to Theoretical Propositions*

Once the data are gathered, they will be assigned to the appropriate unit of analysis to form 'groups' of concepts. This process is noted in 'Mode of Analysis' (below).

### *Criteria for Interpreting the Findings*

Qualitative research depends on the ability of the investigator to reconstruct, through the interpretive process, the intended meaning behind the information which has been gathered during the inquiry (Ödman, 1988). Inherent in interpretation is the risk of making errors by attributing incorrect meanings to

the information supplied. Mistakes can be minimised by applying various checks and tests to verify emergent propositions and explanation (Marshall & Rossman, 1989). The dominant criteria for interpretation in this thesis will be the comparison of evidence and apparent meanings from alternative sources, and testing outcomes against rival interpretations.

### **Developing Theory**

Given its exploratory emphasis, this thesis will rely substantially on inductive reasoning whereby data are analysed in order to propose or refine theory. Eisenhardt (1989) reports several advantages of building theory from case studies. In analytic induction, theory generation not only occurs after data collection, but also before and during that process (Marshall & Rossman, 1989; Yin, 1994). In this study therefore, theory construction and conducting research will be undertaken as parts of the same process, with all research activities being guided by the emerging theory.

### **Mode of Analysis**

Data will be managed and analysed using QSR NUD\*IST 4 software. This system explores and codes documents, links them to the categories determined by the researcher, produces an index system, and searches text and codes to assist in the construction and testing of theories.

### **Case Report**

As the research will take an ethnographic approach, all issues relating to BCL's presence and operations on Bougainville will be included in the initial narrative of the case. Material found to be superfluous will be excised at a later point. The case report will be presented as three chapters; one detailing Bougainville island and its people, one concerning the history of BCL and the Panguna mine, and one focusing on the rebellion which closed the mine. Drafts of the case report will be presented to all informants for consideration, expansion and factual correction before the narrative is accepted into the study. In writing the report, three factors will be considered: content, audience, and composition.

### *Content*

As Stake (1994) suggests that the infinite number of observations available on social objects requires limitations be placed on research and case reports, the entire Bougainville history will not be recorded in detail; only the relevant factors will be abstracted. These factors, which will dictate the point at which

the research is adequate, are to be determined by the purposes of the study and the research questions (Guba & Lincoln, 1981).

### *Audience*

Yin (1994:129) observes that

Because case studies have more potential audiences than other types of research, an essential task in designing the overall case study report is to identify the specific audiences for the report. Each audience has different needs, and no single report will serve all audiences simultaneously.

Whilst the academic community constitutes the primary audience of this thesis, it will also seek to communicate with the wider population. In particular, the report will be styled in such a way that the research subjects will be able to make judgments concerning the plausibility of its contents and conclusions.

### *Composition*

Because the meaning of qualitative research “is in the reading” (Berg, 1989:117) the report will be aimed at gaining and holding reader interest. Walton (1972) believes that case reports should provide readers with a vicarious experience of the case, therefore this thesis will use ‘thick descriptions’ to engage its readers. Through the case report, readers may be able to assess the researcher’s findings, draw their own conclusions, or be motivated to generate further investigations on the subject.

## **INFORMATION REQUIRED**

The substance of the research questions requires the examination of the internal and external environmental influences of the case, as categorised above. These factors are the ‘units of observation’ which constitute the fundamental issues to be investigated in this study. They are detailed on the following pages.

### **1 Legal Environment**

#### *Data Requirements*

The indigenous and foreign governance of Bougainville.

Bougainvillean attempts to gain independence.

The evolution of independence in PNG.

The subsuming of Bougainville into PNG.

PNG laws relating to the financial operations of MNEs.

PNG laws regulating employer-employee relationships in MNEs.

PNG laws relating the use and protection of natural resources.



Bougainvillean interpretation and acceptance of the PNG legal system.  
Panguna's relationship with Bougainvillean and PNG laws.

#### *Data Sources*

Published material on

- Bougainvillean community traditions;
- the German, British and Australian administration, and the Japanese invasion of Bougainville;
- the Westminster system of government;
- international law;

Accounts of the Bougainville civil war.

Former executives of the Panguna mine.

PNG Hansard, parliamentary reports, and government research papers.

Australian Hansard, parliamentary reports, and government research papers.

## **2 Political Environment**

#### *Data Requirements*

The political history of Bougainville and PNG.

The genesis and nature of the tensions between Bougainville and PNG.

Foreign involvement in the affairs of PNG and Bougainville, particularly that of Australia.

The political implications of an Australian company on Bougainville.

#### *Data Sources*

Published authorities on Melanesian history, society and politics.

News reports and the personal observations of journalists.

PNG Hansard, parliamentary reports, and government research papers.

Australian Hansard, parliamentary reports, and government research papers.

CRA/BCL reports and publications.

Former executives of the Panguna mine.

## **3 Cultural Environment**

#### *Data Requirements*

The organisation of Bougainvillean society, with particular emphasis on its diverse community structures, land tenure, the relationship between the islanders and their habitat, and indigenous attitudes towards the commercial economy and foreign involvement in their affairs.

#### *Data Sources*

Studies by anthropologists, sociologists and historians.  
Accounts of Bougainvillean life published by indigenous writers.  
Anecdotal evidence from foreign journalists and visitors.  
Former executives of the Panguna mine.

### **4 Economic Environment**

#### *Data Requirements*

The nature of the Bougainvillean traditional economic system and the locals' attitudes towards economic development.  
The economic system of PNG and the national government's attitudes towards economic development.  
The contribution made by the Panguna mine to the Bougainville and PNG economies.  
The attitude of Panguna's management towards the economic development of Bougainville and PNG.  
The constituents, accessibility, extent and economic value of Bougainville's mineral deposits.  
Indigenous attitudes towards the extraction of Bougainville's mineral deposits.

#### *Data Sources*

Anthropological and sociological accounts of Bougainville's economic traditions.  
Published accounts of PNG government policy on development.  
Economic data produced by CRA/BCL and PNG government sources.  
Former executives and documented histories of the Panguna mine.  
Reports on Bougainville's geological characteristics, prospecting activities and mining ventures.  
Reports and publications prepared by CRA/BCL.  
Observers of Bougainvillean life and society.

### **5 Organisational Environment**

#### *Data Requirements*

Information concerning the nature of open-cut mining and the mineral extraction process, the location and size of the Panguna mining complex, and its physical properties, processes and infrastructure. The manner in which the Bougainville mine was managed.

CRA/BCL policies regarding

- social issues;
- political issues;
- human resource management;

- environmental matters;
- compensation for loss and damage;
- transacting with the local people;
- racial integration.

#### Management's philosophies concerning

- social issues;
- political issues;
- human resource management;
- environmental matters;
- compensation for loss and damage;
- transacting with the local people;
- racial integration.

#### *Data Sources*

Documents concerning the procedures of mineral extraction.

Histories of the Panguna mine.

Former executives of the Panguna mine.

Previous academic inquiries into Panguna's operations and practices.

Historical accounts of Panguna's activities.

The observations of employees (expatriate and indigenous) and the relevant trade union.

CRA/BCL reports and publications.

Former executives of the Panguna mine.

## **6 Other Environmental Factors**

### Geographic Features

#### *Data Requirements*

Overview of Bougainville's location, topography and climate, plus essential details of endemic vegetation and fauna.

#### *Data Sources*

Encyclopædiae and atlases.

### Historical Influences

#### *Data Requirements*

The natural and social history of Bougainville prior to European settlement.

The social and political history of Bougainville following European settlement.

The social, economic and political history of PNG during the 20<sup>th</sup> century.

The history of the Panguna mine.

#### *Data Sources*

Commentaries by explorers, historians, anthropologists, sociologists, politicians, journalists, and military personnel.

CRA and BCL reports and publications.

Former executives of the Panguna mine.

#### Ecological Issues

#### *Data Requirements*

The nature of Bougainville's environmental systems.

Indigenous attitudes towards their environment.

The attitude of the PNG government towards Bougainville's environment.

The attitude of the mine's management towards Bougainville's environment.

The ecological impact of open cut mining in general and of the Panguna enterprise specifically.

#### *Data Sources*

Anthropological and social accounts of the Bougainvillean people.

Former executives of the Panguna mine.

Published material on the environmental impact of the mine from:

- Bougainvilleans living in the mine's proximity;
- CRA and BCL;
- environmental experts.

## **APPENDIX B**

### **Interview Guide**

## **Processual Matters**

### *The focus of the interviews*

The primary objective of the interviews is to gain an understanding of managing a large company which operates in an environment which is almost totally foreign to Western corporate and managerial tradition. The central theme is the management of external forces (legal, cultural, economic and political factors) and the process (corporate culture, company policies, etc) of making the organisation fit within the dictates of these externalities. Bougainville Copper Limited's management of the Panguna mining venture is the vehicle for investigating these management issues.

### *Confidentiality*

Any personal opinions offered during the interview will not be included in the thesis if the respondent so wishes.

### *Anonymity*

- Full transcripts of the interviews will be included in the thesis, however the sources of the material will not be identified and any direct quotes used in the text will be attributed to 'a former BCL executive' or a similar annotation.
- The frontispiece of the thesis will acknowledge the input of those who assisted in this research, however individual names will not be used.

### *Data recording*

Following the transcription of the interviews, the respondents will be asked to read a written record of their session prior to its inclusion in the thesis. This is to ensure the faithfulness of the transcript, and to provide an opportunity to add or delete material.

The respondents will decide whether the interview will be recorded by way of note-taking or tape recording.

### *Format*

To access the 'experience' of management in such unique circumstances, the interviews will be relatively unstructured. A number of particular issues need to be addressed however, and to this end a series of questions will be posed.

## **Open Discussion**

A 'free' conversation is invited on the manner in which the mine's senior personnel approached the management of the operation, with particular emphasis on

- managing the cultural, legal, economic and political forces with which the mine had to contend, and
- attuning the internal operations of the company to these elements in the mine's external operating context.

## Specific Questions

### *Historical Perspectives*

1. When the Panguna venture commenced, RTZ/CRA had long experience in establishing mines in foreign countries, particularly economically undeveloped regions.
  - a) At that time, were there any indications that the historical and social peculiarities of Bougainville would result in difficulties for the operation (compared with similar areas in which the company was involved)?
  - b) In those days, was the company or management concerned about the interface between its operations and host countries' human, economic and environmental circumstances?

2. Were the risks of locating a mining complex on Bougainville assessed prior to its establishment?

If so, what assessment procedures were undertaken?

3. Published commentaries indicate that Panguna's management was generally sensitive to the needs and wants of the Bougainvilleans living near the minesite. For example, the company preferred to negotiate compensation issues directly with the locals, land was not entered without permission, native customs were respected, etc. This seems to have continued throughout the life of the mine.

Was this due to (a) recognition of a potentially difficult situation, (b) head office policy on foreign operations, or (c) empathy on the part of senior management on Bougainville?

4. From my reading of the events, I understand the fundamental reasons behind the failure of the mine were:
  - i) The Bougainvilleans were, and remain, opposed to foreigners on their land or involved in the organisation of their society.
  - ii) CRAE was not able to strike a mutually acceptable arrangement with the locals during exploration due to language problems, the villagers' incomprehension of mining laws, and their suspicion of foreigners. The relationship between the mine and the Bougainvilleans did not seem to fully recover from this initial strain.
  - iii) PNG's involvement in the running of Panguna seems divisive. By ignoring the wishes of the Bougainvilleans, the government intimated that it put the interests of CRA/BCL above those of the locals. On the other hand, insistence that land matters be handled by government agencies showed a lack of confidence in the mine's management.
  - iv) The mine caused more environmental problems than either the company or the Bougainvilleans had expected.
  - v) The Bougainvilleans appear to have been ambivalent about the economic benefits they derived from the mine. Some shunned it, others welcomed it. Further, although no amount of compensation was ever deemed sufficient, the mine's opponents consistently claimed money was not the root issue.

From the above, it appears that the political, social and legal situation on Bougainville circumscribed management's ability to manage. That is, management was not in a position to control the mine's destiny.

Is this a fair assessment?

If so, this means major decisions which should have rested with experts were heavily influenced by 'outsiders' - many of whom had opposing views. Could Panguna have been expected to succeed under these circumstances?

### *Ecological Issues*

5. I assume that the environmental damage on Bougainville was no greater or less than that caused by any other similar mine. Were the Bougainvilleans more/less concerned about the environmental impact of mining than the indigenes of other countries in which CRA was involved?
6. Did the PNG government display any concern for Bougainville's environment?
7. That settling dams were considered and a pipeline was commenced when it became technologically feasible is an indication of corporate concern over the disposal of tailings. Were these initiatives inspired by empathy for Bougainvillean anxiety about their habitat, local agitation, or the general goal of industry to improve processes?
8. In hindsight, did the company pay sufficient attention to ecological issues on Bougainville?

### *The External Operating Environment*

9. To what extent did the company see its role as an agent of economic development in Bougainville and PNG?
10. Among the criticisms levelled against foreign companies operating in undeveloped countries are:
  - i) companies put profits before the economic needs of the host country;
  - ii) local employment gains are small because the company prefers expatriate workers;
  - iii) excessive repatriation of profits;
  - iv) foreign companies tend to exacerbate inequality of income distribution.Similar complaints were levelled at Panguna at various times. Point (iv) appears to be correct, but inevitable. Are these criticisms valid in the Panguna case? If so, to what extent did these issues impact on the relationship between the mine and the local people?
11. Regardless of the size of the compensation settlements, the Bougainvilleans did not seem to be satisfied with them. Yet the literature does not appear to indicate that this dissatisfaction was the result of greed.
  - a) Is this assessment accurate?
  - b) Would another, non-monetary, form of compensation been more appropriate, given that consumerism was foreign to their culture?
  - c) What alternatives were available?



12. Another criticism of foreign firms in developing countries is that as the host country becomes dependent on foreign companies for economic growth, the company assumes political power. PNG clearly depended on the Panguna mine, but the literature provides no evidence of CRA/BCL exerting pressure on the government.
- a) Did the company attempt to use its importance to the PNG economy as a bargaining mechanism with the government?
  - b) Did the Bougainvilleans perceive this to be the case?
13. From the beginning, the mine was a political issue involving Bougainville, PNG and Australia. The literature consistently portrays the company as being neutral.
- Did the Bougainvilleans see the company as neutral?

*BCL's Internal Operations*

14. To what degree was the manner in which the mine handled its affairs a reflection of local management and a reflection of head office directives?
15. Several commentators observe that the company did not have clear policies on dealing with indigenous matters, and that management seemed to make (and change) decisions according to the prevailing conditions.
- Was this a deliberate tactic, or were circumstances such that firm policies were impossible?
16. From the outset, it was evident that the mine was exposed to some degree of threat from the forces of its surroundings. Were these threats evaluated regularly and how were they managed?
17. How much emphasis did head office place on the 'psychological' suitability of senior managerial appointments on Bougainville? (ie attitudes towards the locals, sensitivity to the issues, etc.)
18. Given hindsight, what (if anything) could Panguna's management have done differently?

## **APPENDIX C**

### **Coding Scheme for Classification of Interview Data**

Report produced by QSR NUD\*IST software. Nodes 1 through 5 devised by the researcher; nodes 5.1 through I86 generated by the software as a result of the program's 'Index Search' facility.

PROJECT: PhD, User Graeme, 9:59 am, Feb 14, 1999.

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(1 3)	/Attitudes/Mgmt
(2)	/Values
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(2 2)	/Values/Outside
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(F)	//Free Nodes
(T)	//Text Searches

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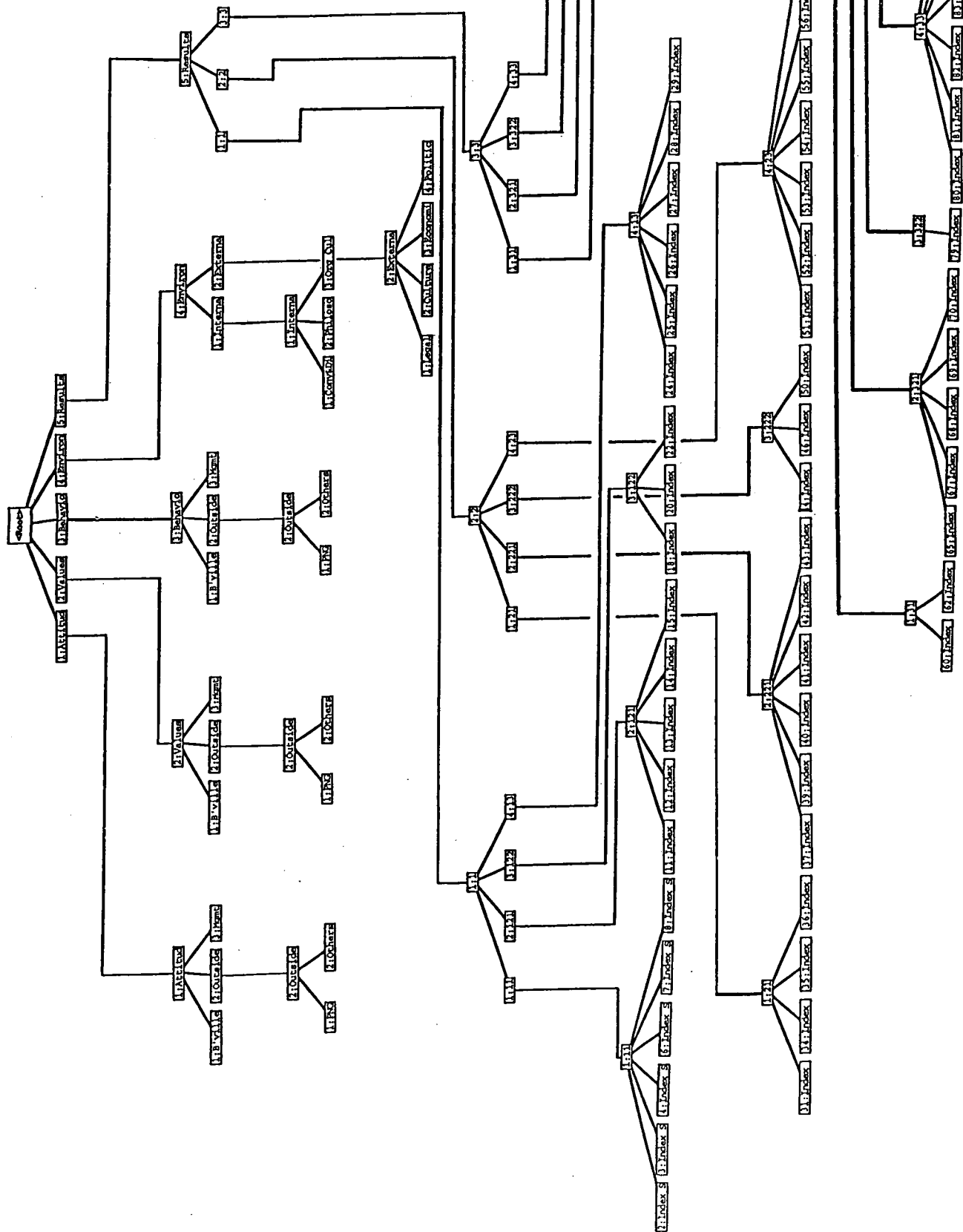
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## APPENDIX D

### Index Tree

Generated by QSR NUD\*IST software.





## **APPENDIX E**

**Sources of information and contributors  
to the case report in Chapters 4, 5, and 6.**

## Documentary records

The history of Bougainville is well documented. Commencing with the records of early explorers and continuing with contemporary radio and television broadcasts<sup>139</sup>, most aspects of the island's unique society and tumultuous past has been preserved by many observers. As would be expected, attention peaked during the currency of the civil war and today commentary is restricted to sporadic news items and the corporate reports of Bougainville Copper Limited. It is these records which have informed a large part of the case narrative presented in Chapters 4, 5 and 6.

The primary sources of documented data included

- eye-witness accounts;
- CRA/BCL documents;
- books, journal articles and commentaries by
  - key mine personnel
  - Bougainvillean landowners and villagers
  - Bougainvillean, PNG and Australian politicians;
- the findings of environmental consultants;
- government, revolutionary, and CRA/BCL correspondence; and
- aid agency reports.

The secondary sources of documented data were drawn from

- books, journal articles and commentaries by
  - explorers
  - engineering consultants
  - anthropologists
  - environmentalists
  - sociologists
  - foreign affairs specialists
  - political scientists
  - journalists
  - social commentators
  - lawyers
  - historians
  - geographers
- PNG and Australian Hansard and parliamentary reports;
- PNG and Australian government research papers;
- reports of governmental committees and delegations from PNG, Australia and other countries;

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<sup>139</sup> For the purposes of this thesis, material derived from the electronic media is classified as 'documentary' evidence. Where such sources were used, the researcher transcribed directly from recordings of the broadcasts.

- transcripts of political addresses and Ministerial statements;
- radio, television and press reports; and
- encyclopædiae

## **Oral histories**

Once the initial case report had been composed from the above material, comment was sought on its factual content. This exercise served two purposes: it injected further detail which enhanced the thick descriptions the author was seeking, and it formed part of the verification process.

Although both primary and secondary informants agreed to assist in this process, only primary evidence was forthcoming. This was supplied by past executives of the mine, all of whom have intimate knowledge of the Bougainville saga. Each of these men added material facts to the narrative and, perhaps more importantly, supplied individual perspectives and advised of the subtleties of certain situations which would not have otherwise been available.

## **Interviews**

The information gathered from participant interviews was central to the analysis of the case. However, the peculiarities of the events on Bougainville necessitated that particular care be taken in preparing and executing the interviews. As three of the four respondents were former executives of the Panguna mine, two issues were at the forefront of the researcher's mind. Firstly, the publicity surrounding the Bougainville Crisis has placed these men in an unenviable position. Unlike most retirees, they have not had the luxury of anonymity or mellow seclusion since leaving office; their opinions are still sought by various people, of whom the researcher was yet another. Secondly, nobody can know their personal sensitivities to the human tragedy and corporate difficulties in which they were enmeshed. For these reasons, the author remained conscious of needs of the now private citizens who graciously assisted in this endeavour.

## **APPENDIX F**

### **Example of Stage One Coding of Interview Data**

#### **Report of preliminary data search.**

PROJECT: PhD, User Graeme 4:44 pm, Dec 3, 1998.

\*\*\*\*\*  
(2 3) /Values/Mgmt

\*\*\* Definition:

Values of the management of the mine concerning Bougainville

+++++

+++ ON-LINE DOCUMENT: Interview-Respondent Number 1

+++ Retrieval for this document: 14 units out of 192, = 7.3%

++ Text units 45-47:

I wanted the Bougainvillean people involved from the beginning, so I spent a lot of time getting to know them. 45

46 It must be remembered that it was their country.

47 ++ Text units 112-112:

And the mine had no choice but to rely on the government in these matters; it was bound by the rules and regulations of PNG. 112 ++ Text units 120-122:

Compared to other mines, Bougainville was a very high tonnage operation and so a large amount of material went down the river system. 120

121 This would be a problem, but in the 60s, we did not see it that way.

122 ++ Text units 146-146:

The company saw it as its duty to look after the Bougainvilleans as best it could, despite the Church's urgings not to be too generous. 146 ++ Text units 150-153:

We were providing good accommodation for Australian staff and we were careful to make sure that the accommodation for indigenous people was not inferior. 150

151 We tried very hard to maintain an equitable situation.

152

153 ++ Text units 158-158:

Although the management styles of the executives differed, I believe we all had a common concern for the welfare of the locals. 158 ++ Text units 160-160:

We may have put different emphasis on different points, but it is fair to say that throughout the years of the mine's operation we were always sensitive to the people whose land we were using. 160

+++++

+++ ON-LINE DOCUMENT: Interview-Respondent Number 2

+++ Retrieval for this document: 25 units out of 220, = 11%

++ Text units 9-9:

Compared to the Australian and PNG governments, the company went to no end of trouble to recruit international experts in all areas in order to get the best advice possible as to how to go about creating an operation of this magnitude in such a region with a minimum impact on the local people; and wherever possible, with benefit to the local people. 9 ++ Text units 17-17:

Frank Espie travelled the world in great detail and spent a lot of time talking to people who were involved in mining operations in Africa in particular to find out from them what gone wrong in the past and what they would do differently if starting up from scratch again. 17 ++ Text units 26-28:

This is the sort of thing that Frank Espie tried to learn from to make sure it did not happen in Bougainville. 26

27 Frank recruited a couple anthropologists - one from Fiji and one from Harvard - and they were very helpful in advising us on how to go about developing the area with minimum impact on the local people. 28

++ Text units 32-34:

Frank believed it was essential to have as high a proportion of Papua New Guineans working in the mine as was possible. 32

33 The government did not stipulate the expatriate-national ratio; Frank did it voluntarily because he maintained he was not interested in having an agreement which was satisfactory to the Australian government. He wanted an agreement which would be satisfactory to the first independent PNG government. And I think he succeeded; it was a fair and reasonable agreement.

34 ++ Text units 42-44:

There is no question that the preliminary work that was put into anthropological research and training was first class. The workforce at Panguna was very good. Technically, the operation with the high local labour content of about 80% was as good as I've seen anywhere in the world. 42

43 The Papua New Guineans and Bougainvilleans made excellent operators and excellent tradesmen. In every way, costwise, safetywise and in every way, our operation was better than any of the other CRA operations in Australia. This was mainly due to the efforts that went into training. In fact, it was so successful that CRA introduced the same training procedure into its Australian operations. 44 ++ Text units 50-52:

The biggest error we made was to think that we, as a company, were there for the benefit of all Papua New Guinea. For instance, people in Australia can understand that the benefits of operations in Australia should be shared equally between all Australians, and this is done through the distribution of wealth by the central government. 50

51 Our agreement was with the PNG government, and we saw Port Moresby as our chief area of control and they were the people who made the laws for the country. And so whatever we did, we had to do with their approval. If we had their approval, then it was legally acceptable and correct and we were able to do it. 52 ++ Text

units 60-62:

Now we were not aware of this when we went to PNG. We wanted to be a model citizen and we made sure that what we did was to the benefit of the country as a whole. And so everything that we did was with that in mind. 60

61 Our negotiations were with the central government, which was right and proper. 62

++ Text units 68-68:

So there was nobody there representing the Bougainvillean issues, and then when we drew up our program of the workforce, our objective was to recruit the best people we could from the whole of the country. We saw that because we were located on Bougainville, there should be a higher proportion of Bougainvilleans than anyone else and as a result of that we had about 40% Bougainvilleans.

68 ++ Text units 103-103:

Another thing that needs to be recognised is that the people who created all the trouble and started the rebellion were not the people who were representing the villagers and who had been negotiating with us. We were negotiating with the men who were considered the heads of the villages - the relationship between them and the company was good, and we had reached agreement on the compensation and the like. But the people who created all the trouble were the

next generation, and they were not a recognised group; they had not been elected to any position and they were being ignored by their elders and the company. The company felt that the people that they should be dealing with were the elders who represented the community.

103 ++ Text units 107-107:

I guess there was one other mistake the company made, and that was that in our efforts to localise employment to the highest level possible, we appointed Papua New Guineans to senior positions whenever we could. 107 ++ Text units 133-135:

We were more content to keep the operation running at maximum output rather than worrying about the feelings behind this letter. 133

134 In retrospect, keeping the mine running meant absolutely nothing; if we had shut the operation down the day we got the letter and left it shut for 6 months while we talked and did nothing else, it would have been a hell of a lot better than what has happened over the past 10 years. 135 ++ Text units 190-190:

We paid them compensation, but money does not really compensate for those things. 190

++ Text units 214-214:

The PNG government made no environmental demands on the company at all. All such initiatives were taken by the company. 214

+++++

+++ ON-LINE DOCUMENT: Interview-Respondent Number 3

+++ Retrieval for this document: 15 units out of 307, = 4.9%

++ Text units 3-3:

I think it is appropriate to recognise that the human relations aspect of the Bougainville operation was by far the most significant single side of management responsibilities, because of its social limitations and because it was an offshore operation. By human relations, I don't mean just the workforce, I mean the entire population of the island. 3 ++ Text units 8-8:

But from a management point of view, you must concentrate on the community, the political, the workforce and those types of aspects. 8 ++ Text units 14-14:

The environmental impact was not all that bad. Visually, it could be construed as being bad because there was a lot of [material] poured down into that swamp area. You can't grind thousands of tons of dirt a day without leaving a bit of rubble, but there was no toxic environmental involvement as you do have in other operations such as cyanide in gold processing and that sort of thing. You could say it was good, clean dirt. But it was dirt, and it was ugly and it was different, and it did impact on some Bougainvilleans.

14 ++ Text units 30-32:

Therefore, you have immediately created an inequity and the real problem comes with relativity; it is not how much, or an appreciation of a certain figure, but when you see your mate with three trucks and you've only got one, you say "Why him?" It was wrong, I knew it was wrong, and the company knew it was wrong. 30

31 And we aggressively tried to address that with a distinct lack of satisfaction because nobody could ever digest that as it had been inherited from the initial mining legislation which was antiquated and based on Australian law. 32 ++ Text units 38-38:

In the 1980s, we managed to bring in another factor, and that was compensation for the people who were actually affected as against compensation for people who could get on with their normal lifestyle. 38 ++ Text units 114-114:

The National Government commissioned international advisers on the tax issue, and they were tarred with the one brush that said multinational miners are liars and cheats. But that aint so. The Government was being advised about the 1974 Agreement by academics out of Sussex, and academics have a pretty blinkered view. So do missionaries. These two are about the worst enemies of any good progressive mining operation.

114 ++ Text units 148-150:

I tried very hard to balance that, but it was difficult because if you just revalue it, the next fellow is there and the relativity remains fairly constant.

148

149 We were slowly working on changing the relativity; it was a slow process and it wasn't able to move fast enough to meet the aspirations of the people.

150 ++ Text units 164-164:

Bearing in mind that the price was all over the place, so what is economic anyhow? This is another problem. As long as the company stayed within the lower quartile of world mining costs, it could come out in front.

164 ++ Text units 222-222:

The administration was trying to help the whole country with the proceeds of the mine, but the Bougainvilleans could not get away from the fact that they were being neglected and PNG was being developed with their money. The company tried to point out to the national government that these issues needed to be addressed.

222 ++ Text units 255-255:

In the past, companies have opened mines by making stupid promises and walk out when it fails; this upsets everybody. We did not do this - we were honest and told them we did not really know what the mine would be like. But then people said "if you don't know, who the hell does know". Our only reply could be "we don't know what's there yet". Therefore you have the landowners whose back yard was going to be dug up and a company who did not know how much it needed to dig.

255 ++ Text units 295-295:

There were peaks of discontent and nobody addressed that problem. Continually, management would ask the government "...why don't you stop the flow of all these unemployables across the sea because they are disrupting everybody. They are making the communities unhappy. They are not getting jobs, so they are unhappy as well". But the government in its wisdom said it could not limit the movement of its citizens.

295

+++++

+++ Total number of text units retrieved = 54

+++ Retrievals in 3 out of 4 documents, = 75%.

+++ The documents with retrievals have a total of 719 text units, so text units retrieved in these documents = 7.5%.

+++ All documents have a total of 741 text units, so text units found in these documents = 7.3%.

+++++



## **APPENDIX G**

### **Example of Stage Two Coding of Interview Data**

#### **Report of subsequent data searches.**

PROJECT: PhD, User Graeme, 2:28 pm, Feb 2, 1999.

\*\*\*\*\*

(I 54) //Index Searches/Index Search3022

\*\*\* Definition:

Search for (INTERSECT (2 3) (4 2 1)). No restriction

\*\*\*\*\*

+++ ON-LINE DOCUMENT: Interview-Respondent Number 1

+++ Retrieval for this document: 1 unit out of 192, = 0.52%

++ Text units 112-112:

And the mine had no choice but to rely on the government in these matters; it was bound by the rules and regulations of PNG. 112

\*\*\*\*\*

+++ ON-LINE DOCUMENT: Interview-Respondent Number 2

+++ Retrieval for this document: 4 units out of 220, = 1.8%

++ Text units 50-50:

The biggest error we made was to think that we, as a company, were there for the benefit of all Papua New Guinea. For instance, people in Australia can understand that the benefits of operations in Australia should be shared equally between all Australians, and this is done through the distribution of wealth by the central government. 50 ++ Text units 52-52:

Our agreement was with the PNG government, and we saw Port Moresby as our chief area of control and they were the people who made the laws for the country. And so whatever we did, we had to do with their approval. If we had their approval, then it was legally acceptable and correct and we were able to do it.

52 ++ Text units 62-62:

Our negotiations were with the central government, which was right and proper.

62 ++ Text units 214-214:

The PNG government made no environmental demands on the company at all. All such initiatives were taken by the company. 214

\*\*\*\*\*

+++ ON-LINE DOCUMENT: Interview-Respondent Number 3

+++ Retrieval for this document: 2 units out of 307, = 0.65%

++ Text units 32-32:

And we aggressively tried to address that with a distinct lack of satisfaction because nobody could ever digest that as it had been inherited from the initial mining legislation which was antiquated and based on Australian law.

32 ++ Text units 295-295:

There were peaks of discontent and nobody addressed that problem. Continually, management would ask the government "...why don't you stop the flow of all these unemployables across the sea because they are disrupting everybody. They are making the communities unhappy. They are not getting jobs, so they are unhappy as well". But the government in its wisdom said it could not limit the movement of its citizens. 295

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+++ Total number of text units retrieved = 7

+++ Retrievals in 3 out of 4 documents, = 75%.

+++ The documents with retrievals have a total of 719 text units, so text units retrieved in these documents = 0.97%.

+++ All documents have a total of 741 text units,  
so text units found in these documents = 0.94%.

## **APPENDIX H**

**Biographical notes:  
Papua New Guineans who feature in  
the events recorded in this thesis.**

Sir Julius **Chan**, an integral member of PNG's parliament following independence, was the country's inaugural Finance Minister. In 1980 he defeated Somare in a no confidence vote and became Prime Minister in a five party coalition. His government was torn by in-fighting between the various parties, and he stepped down from office following the 1982 elections to be replaced by Somare. He served again as Finance and Planning Minister in the Wingti government, and was returned as Prime Minister in 1994.

A member of the first intake of UPNG in 1966, Rabbie **Namaliu** graduated in history and English after which he secured a Masters degree in Canada. Originally returning to UPNG as a lecturer, Chief Minister Somare recruited him as a private secretary in 1973. Following independence, Namaliu became Provincial Commissioner for East New Britain, then chairman of the PNG Public Services Commission. Winning the seat of Kokopo in 1982, Somare appointed him Minister of Foreign Affairs. Defeating Wingti in July 1988, he became Prime Minister.

Sir Michael **Somare** was born in 1936 in Rabaul and studied to be a teacher before taking up a career in radio broadcasting. A founder of the Pangu Pati, Somare was elected member for East Sepik in the National Parliament in 1968. He became Parliamentary Leader of that party in the same year at the first session of the House of Assembly. In April 1972 Somare formed the first Coalition Government between the Pangu Pati, the People's Progress Party, and the National Party and became the first Chief Minister. After PNG attained self government in 1973, Somare lobbied vigorously for a rapid transition to full independence. When this was achieved in 1975, he became the country's first Prime Minister. On 11 March 1980, Somare's coalition collapsed due to irreconcilable differences between the party leaders, and Chan became Prime Minister. Chan's leadership lasted barely two years, and Somare was returned to office once again. After three motions of no confidence during 1985, Somare fell to Wingti in November that year. He has remained in parliament since that time, and in 1999 held the office of Foreign Minister and Minister for Bougainville Affairs under PM Mekere Morauta.

Born near Mt Hagan, Paias **Wingti** entered UPNG in 1974 to study economics. Elected to the Mt Hagan open seat in 1977 on the Pangu Pati ticket, he served as Minister for Transport and Civil Aviation until the fall of the Somare Government in 1980. The strong support for the Pangu Pati in the 1982 general elections resulted in his elevation to leader of the party's

Highlands block and Deputy Prime Minister. The 1985 split in the Pangu Pati saw 15 party members move to the Opposition, with Wingti as leader. That year, defeating Somare in a no confidence vote, he became Prime Minister at age 34. His second term as Prime Minister followed the 1987 election, but he was replaced by Namaliu in July 1988. Wingti served again as Prime Minister from 1992 to 1994.

## **APPENDIX I**

### **Political Districts of Papua New Guinea**

<b>Region</b>	<b>Province</b>
Papua	Western (Fly) Gulf Central National Capital District Milne Bay Northern (Oro)
Highlands	Southern Highlands Enga Western Highlands Chimbu (Simbu) Eastern Highlands
Momase	Morobe Madang East Sepik West Sepik (Sandaun)
Islands	Manus New Ireland East New Britain West New Britain North Solomons

## **APPENDIX J**

**Biographical notes:  
CRA/BCL personnel who feature in  
the events recorded in this thesis.**



Raymond W. **Ballmer** was General Manager, then Managing Director of BCL during the Bougainville mine's construction and early production phases (1969 to 1975). A United States citizen with extensive experience in large open-pit mines, he was chosen as on-site head of the new project because no Australians with comparable credentials were available. With the operation well established in 1975, he resigned from BCL and returned to the U.S.A.

Joining CRA in 1955, Donald S. **Carruthers** became General Manager for the group's exploration in 1969, and assumed management of the CRA's coal interests in 1975. As BCL's Chairman from 1986, Carruthers, like Cornelius, was caught in the events which would eventually result in the closure of the mine.

Having spent many years in other CRA operations, Robert J. **Cornelius** joined BCL in 1982 as General Manager of concentrator operations before becoming Managing Director in 1987. The adverse external forces which began brewing during Quodling's tenure increased and erupted in Cornelius' administration.

Sir Frank F. **Espie**, O.B.E. was a key figure of the establishment of BCL. When the project moved into the evaluation phase in 1965, control passed from King to Espie who was to guide the operation for the next fifteen years. Commencing work in 1947 for a firm which was to become a member of the CRA group, Espie became Managing Director, then Chairman of BCL and was appointed Deputy Chairman of CRA in 1974. Retiring from executive duties in 1979, he remained a director of BCL and CRA until 1985.

Haddon **King**, a geologist, was responsible for CRA's search for copper throughout the south-west Pacific area in the 1960s. As Director of Exploration, he managed the exploration project which led to the identification of Panguna's vast mineral deposits.

Kenneth M. **Phillips** was CRA Exploration's senior geologist who, under King's direction, led the 1964 prospecting team on Bougainville. According to Oliver (1991:155) "it was Phillips' imagination and general exploratory flair which recognised, and realised, the [area's] possibilities". As the group's leader, it was Phillips who negotiated equitable terms of access with the local villagers.

When Vernon returned to Melbourne he was succeeded by Paul W. **Quodling**, O.B.E., who served as General Manager from 1977, then Managing Director from 1982 until his retirement in 1987. Commencing with Rio Tinto Mining Company of Australia Pty Limited in 1956, Quodling joined CRA's exploration team on Bougainville in 1966. He became Assistant General Manager for Administration, and then Assistant General Manager for Personnel and Community Relations prior to his appointment as General Manager.

Donald C. **Vernon** joined the CRA group in 1953 and assumed management of the Bougainville venture in 1966. Based in Melbourne, he was Espie's principal aide. Moving to Bougainville in 1970, he became Managing Director when Ballmer withdrew in 1975. In 1977 he returned to Melbourne to take a wider role in CRA, including chairmanship of BCL upon Espie's retirement from that position.

## **APPENDIX K**

**Biographical notes:  
Personalities, not directly associated with  
the central parties of the case, who feature  
in the events recorded in this thesis.**

Max **Denehy** was the Assistant District Commissioner for the Kieta Sub-District at the time mineral exploration commenced on Bougainville. As liaison officer between the administration and the local population, Denehy was responsible for advising the Bougainvilleans of the imminent arrival of CRA as well as assisting the investigation party in matters such as access and interpretation.

Emeritus Professor James **Griffin** was formerly Professor of History at the University of Papua New Guinea, and is a Senior Research Fellow, Pacific History, Australian National University.

Gabriel **Lafitte** is the author of various commentaries on Bougainville. In a footnote to *Logic is a White Man's Trick: The Bougainville Rebellion*, Griffin (1990b:80) reports:

The "Bougainville Initiative" was actually written by a certain Gabriel Lafitte, Fr Momis' press officer for a few months before the 1987 elections. He had no prior experience of Papua New Guinea. In February 1990 he was a convenor of a protest meeting [in] Melbourne, billed as "Bougainville – Our New Vietnam" ... Lafitte describes himself as "a prominent Buddhist". He is currently manning a Melbourne-based Bougainville Information Service sponsored by Community Aid Abroad. The BIS is to become eventually part of a Melanesian Information Service whose task will be "to call for Australians to re-think their relationship with Melanesian nationalism." He thinks Bougainville people are "fairly unsophisticated," *Times of PNG*, 17 and 24 May 1990. Students of exhibitionism will note the extraneous purposes to which another people's tragedy can be put. It is interesting to compare Lafitte's view of the nobility of the BRA rebellion with his former employer's view. Fr Momis, minister for Provincial Affairs, describes the BRA as "a minority isolated armed gang controlling Bougainville only through the power of the gun and bullying intimidation." *The Australian*, 28 May 1990.

Given Lafitte's criticism of BCL and its activities, the researcher asked a former executive whether he (Lafitte) had contacted the company to determine their perspective on the situation on Bougainville. To the best of the executive's knowledge, Lafitte had never sought BCL's views or opinions.

Emeritus Professor Douglas **Oliver** has devoted his life to the study of the peoples of the Pacific. In 1950 he became professor of Anthropology at Harvard University, following which he held the Chair of Pacific Islands Anthropology at the University of Hawaii. His association with Bougainville, which commenced in 1938, is acknowledged by his widely cited works on the history and people of the islands and his consultancy to BCL during the early years of the Panguna mine.

## **APPENDIX L**

**Biographical notes:  
Bougainvilleans who feature in  
the events recorded in this thesis.**

Graduated from UPNG in 1971, Leo **Hannett** was a chairman of the BSPC, District Planner for the Provincial Government, a founder of the BDC, and Premier of NSP from 1980 to 1984. More recently, he has acted as adviser to the PNG Prime Minister on the North Solomons. Hannett was born on Nissan in 1941, and studied at Holy Spirit Seminary in Madang with Momis and Sarei.

When Alexis Sarei resigned as Premier of the NSP Government in 1987 he was succeeded by Joseph **Kabui**, the Melanesian Alliance Party endorsed member. Being from a relocated village near the mine tailings dump, a member of the Panguna Landowners' Association, and previously serving as an industrial officer with the BMWU, Kabui was largely responsible for distancing the provincial government from BCL and its activities. He continued as Premier until being suspended by Acting PNG Prime Minister Diro in April 1990. Appointed Justice Minister in the Bougainville interim government following the declaration of independence, he was a key figure in the subsequent negotiations with the PNG government.

An early supporter of the Panguna landowners, Sir Paul **Lapun** was born 1923 in Buin, and trained for the priesthood before becoming a teacher in the mission schools. He won the Bougainville seat in the 1964 House of Assembly elections, and was returned in 1968 and 1972. A member of the Pangu Pati, he served as Under-Secretary for Forests and Minister for Mines and Energy. Despite strong opposition, Lapun successfully moved a Bill through parliament which, in 1966, gave Bougainvillean landowners 5 per cent of BCL's royalty payments.

Born at Buin in 1942, Father John **Momis** attended high school in Queensland and was ordained a Roman Catholic priest in 1970. Opposed to the presence of the Panguna mine from its inception, he has been a central figure in PNG politics since 1972 when he became MHR for Bougainville. He was deputy chairman of the Constitutional Planning Committee, has served as a Government Minister under Somare, Chan and Namaliu and has been both Deputy Prime Minister and Opposition Leader. Originally a member of the Pangu Pati, he co-founded the Melanesian Alliance Party in 1982. As Minister for Provincial Affairs during the Bougainville crisis, Fr Momis' loyalties were divided between national unity and Bougainvillean autonomy.

Born in 1936 at Kieta, Henry **Moses** is led a landowner in one of the Panguna mining leases. Starting work as a teacher, he joined BCL as an industrial relations officer and subsequently became president of the BMWU. Politically active, Moses was a councillor with the Kieta Local Government, a founding member (and later chairman of the Development Planning section) of the BSPC, and NSP member for Panguna.

Francis **Ona** was born in 1953 in Guava and attended Marist mission schools on Bougainville. In 1976 BCL employed him as a mine-pit surveyor, a position he held for ten years before being transferred to pit operations as a haul-truck operator. In August 1987 he was elected General Secretary of the 'new' Panguna Landowners' Association. Ona terminated his work with BCL in November 1988 when he disappeared into the bush. A leader in the fight for independence, he became Interim President of the Republic of Bougainville in May 1990.

Alexis **Sarei**, born on Buka in 1934, holds a PhD in Canon Law from the Vatican, and was ordained a priest in 1966. He left the clergy to become personal secretary and adviser to Chief Minister Somare, and was appointed District Commissioner of Bougainville District in 1973. Feeling his loyalties lay more with fellow islanders than with PNG, Sarei supported secession and was declared interim president of the Bougainville Republic at the 1975 independence ceremony. He was elected NSP premier in 1976, but was replaced by Hannett in the 1980 elections. In 1984, he regained the premiership only to lose it again in 1987.

Inaugural president of the 'new' Panguna Landowners' Association, Pepetua **Serero** was a native of Guava who had worked for the Administration radio station on Bougainville. Like Ona, her first cousin, she was deeply suspicious of whites and vehemently opposed to the mine. Serero died of pneumonia in 1989 at the age of 36.

## APPENDIX M

### **Procedures for claiming damages under the *Mining Ordinance 1927–66***

Source:  
Bedford, R. D. & Mamak, A. F. 1977. *Compensating for Development: The Bougainvillean Case*. Christchurch: Bougainville Special Publications, page 31.



The villager (or village) concerned raised the issue with one of the District Administration's officers who, after checking the claim, would file a complaint in the Mining Warden's Court. This officer would represent the plaintiff at the hearing.

A claim typical of many lodged during the period of road construction in the Pinei valley in the late 1960s is noted below.

Okiong-Amentat of Korpei village who had gardens on the land known as 'Damara (no. 2)' owned by Simon Porake sued the Company for the following damages: Destruction of 20 small pitpit clumps, 6 mature banana clumps, 100 roots of tapioca, 1 kaukau (sweet potato) plot 63 feet [19.2 metres] by 140 feet [42.7 metres]. Amentat had no other gardens at the time and sought assistance in the preparation of a new garden as well as cash compensation for the destruction of his crops. The judgement handed down at the Mining Warden's Court on 9 October 1969 was:

Compensation for destruction of crops	[A] \$86 <sup>140</sup>
Cash payment in lieu of rations for 22 months while a new garden was established	<u>[A] \$84<sup>141</sup></u>
Total cash settlement	[A]\$170 <sup>142</sup>

In addition the Company was to prepare a garden site covering an area of one-fifth of an acre within three months of the court hearing.

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<sup>140</sup> US\$120

<sup>141</sup> US\$118

<sup>142</sup> US\$238

## APPENDIX N

### **Schedule of Compensation Rates for Subsistence Crops, Animals, and Trees in 1970.**

Source:

Bedford, R. D. & Mamak, A. F. 1977. *Compensating for Development: The Bougainville Case*. Christchurch: Bougainville Special Publications, page 32

ITEM	A \$	ITEM	A \$
<u>Foods</u> (per plant)		Tauna (Vegetable)	2.00
Banana plant	2.00	Tomato	0.50
Breadfruit tree	5.00	Water cress (sq.yd.)	0.50
Betelnut tree	3.00	Yam vine	0.40-0.80
Bean vine	0.20		
Cucumber vine	0.20	<u>Garden allowance</u> (per acre)	
Chinese cabbage	0.05	Clear and replant	200.00
Corn cob	0.02	Replant only	30.00
Choko vine	0.10	Fencing (per chain)	2.00
Daka (pepper)	2.00		
Ginger	0.20	<u>Animals</u> (each)	
Ipika (leaves)	0.50	Dog	1.00-20.00
Korokorong (curry)	0.20	Pig	10.00-80.00
Mango tree	5.00		
Mumu (leaves)	0.10	<u>Building materials</u>	
Muli (citrus)	1.50	Bamboo (10ft, thin)	0.01
Pawpaw plant	1.00	Bamboo (10ft, thick)	0.10
Pineapple (each)	0.20	Galip tree	3.00
Pineapple (sq. yd.)	0.60	Iaru tree	2.00
Pau (nut)	2.00	Kanda vine	1.00
Pumpkin vine	0.40	Limbom tree	1.00
Passionfruit vine	1.00	Laulau tree	2.00-5.00
Sago palm (coastal)	5.00	Other saplings	0.20
Sago palm (inland)	1.50	Others (8-10 in. diam)	0.60
Sugar cane (clump)	0.90	Others (large)	1.50
Sugar cane (6ft stick)	0.10	Pandanus tree	2.00
Sweet potato (per sq. yd)	0.05	Pitpit (clump)	0.20
Sweet potato (per sq. yd)	0.05	Sapwood tree	5.00
Taro (kongkong)	0.40	Rop bark tree	0.30
Taro (normal)	0.08		
Tapioca	0.20		

## APPENDIX O

### **Examples of successful 'nuisance' compensation claims made by resettled people during the establishment period of the Panguna mine.**

Source:

Bedford, R. D. & Mamak, A. F. 1977. *Compensating for Development: The Bougainvillean Case*. Christchurch: Bougainville Special Publications, page 44.

1. In 1969 the Pakia villagers received [A]\$17 [US\$24] per head on the basis of the following claims: flooding of the tributaries of the Pinei river as a result of earthworks; school children endangered by heavy construction machinery on the only access route to their school; the road rendered virtually impassable by mud and dust; a general loss of aesthetic appeal in the village neighbourhood as a result of construction activities.
2. In 1971 the Moroni villagers received [A]\$1,460 [US\$1,898] for the following damages: disturbance to sleep due to continuous 'round the clock' working of bulldozers; disturbance, annoyance and inconvenience from blasting; annoyance and general unpleasantness in the village caused by rotting vegetation and dieseline; destruction and loss of water supply and sources of firewood; and disturbance of burial grounds.
3. In 1972 villagers at Iuna, who experienced a landslide due to movement of heavy traffic on the western access road, were granted [A]\$25 [US\$35-50] to [A]\$50 [US\$71] per head for hardship caused by the landslide, [A]\$500 [US\$710] to the village for a *singsing* (traditional feast) to celebrate their survival, and [A]\$450 [US\$639] for damage to other property.

## APPENDIX P

### **Correspondence between Father John Momis (on behalf of the Melanesian Alliance Party) and Mr Paul Quodling (Managing Director, Bougainville Copper Limited)**

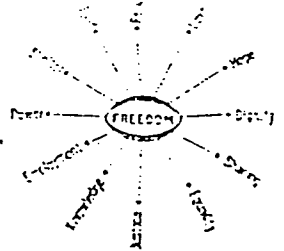
Reproduced from:  
Quodling, P. 1991. *Bougainville. The Mine and The People*. St  
Leonards: The Centre for Independent Studies Ltd., pages 90–95



## MELANESIAN ALLIANCE

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### BOUGAINVILLE INITIATIVE FUND

Paul Quodling,  
Managing Director,  
Bougainville Copper Limited,  
Panguna,  
North Solomons Province,  
Papua New Guinea.

4 May 1987

Dear Paul,

I come to you, having been a leader of this nation for over 15 years, to offer you a gift on the eve of your retirement. You have lived among us for many years. Perhaps the mine you created will not long outlast your retirement.

The gift I offer you is on behalf of the Melanesian people, and particularly on behalf of the people of Bougainville. You will come to see that what I am proposing is indeed in the hearts of all the people of Bougainville.

What I offer you is the gift of understanding, of knowing in your heart the people of this island. I offer you the opportunity to crown your long career with the achievement of gaining the friendship of the people, who currently regard BCL with great resentment. I offer you an initiative which will break the deadlock which has long frustrated us all, a way out of the stalemate which leaves us feeling exploited, and leaves you frustrated at being denied permission to explore, fearful lest our resentment again boils over, as it has in past years.

What I propose in fact offers a win for everyone, and loss for no-one.

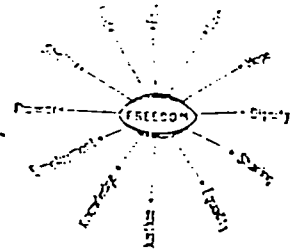
Consider the problems inherent in the present situation. Some of what I say, you may not want to hear. Yet in your heart, you know it is true. To reject the painful truth is a mistake. The fundamental truth is that BCL has colonized our people, it has taken their land, it has reduced them to passive dependence. Our people - who to you are just Bougainvilleans, or even more anonymously 'nationals' - are now servants in a land where once they were masters. They keenly feel it, and deeply resent it. In your heart you know this to be true, even if it is your company's policy to keep a low profile, to keep such distance from the people that no-one says it to your face. So few of your staff are nationals, except for the unskilled and semi skilled who do the dirty shiftwork, breathing the dust you make when you make a hole out of a mountain. After fifteen years of mining, only a handful of nationals have a rank higher than foremen, and that number is not growing but shrinking.

I do not come to you to cause you pain. As you will see, I have come to offer a fresh initiative, based deeply in our Melanesian culture, which can do much to resolve the impasse which frustrates us all. Yet the starting point must be an honest acknowledgement of the truth, even if it is painful.

No solution can undo what has been done. Some things are irrevocable. The BCL mine has forever changed the perceptions, the hopes and fears of the people of Bougainville. You are invaders. You have invaded the soil and the places of our ancestors, but above all, your mine has invaded our minds. It is like



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~~BOUGAINVILLE INITIATIVE FUND~~

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those great alien spaceships, the flying saucers, which so haunt the fearful imagination of Western movie audiences. The spaceship, with its unknown and vastly powerful technologies, lands in the village, terrifying local people who cannot be sure if the aliens wish them ill or good. The people of Bougainville speak of BCL as a monster, and you know it. In recent months our theatre troupes have presented just this view, to you in your own mining company town.

You say you are good corporate citizens. You pay taxes to the national government, you pay wages, you pay royalties, you trumpet your public relations stunts such as the Bougainville Copper Foundation, which doles out small sums to local sports clubs and the like. You build infrastructure, you compensate landowners. Yet those very monies are also very much the problem.

You have been so determined <sup>to</sup> take our earth and send it to Europe and Japan as quickly as possible, that you have created an operation on a scale which makes it overwhelming. Because of that massive scale you pour fifty million tons of our earth into the Jaba River every year. Because of that massive scale, you have made such massive profits that our economy has been reduced to colonial dependence.

You are not ruthless exploiters. You are the modern faceless corporation which takes care to observe local laws, and incorporates local people, locking them into minority shareholdings in trading operations you so generously call a foundation. The vast sums of money you make by selling our gold, silver and copper has created amounts of cash undreamt of before. And that cash has tragically seduced some of the best leaders of our people. It has robbed us of some of our finest men, who have ceased serving their people, and instead line their own pockets with the money of BCL. You may not be legally responsible for the Bougainville Development Corporation scandal, but morally it is your shame as much as ours.

So many of your executives inhabit a fantasy world. They suppose they can merely maintain correct, formal relations with the democratically elected government which represents the people of this province, and there will be no problem. There is a problem. It is all the worse because it has remained unspoken for so long. The problem is that your way and our Melanesian way are different. Our people want to improve their lives, to improve their skills and abilities. They want to learn skills appropriate to village development. Not only does BCL have almost nothing to offer that is relevant to assisting the self-reliance and dignity of our people, it actually saps the confidence, reducing our people to dependent wage slaves, cogs in a wheel. You have parked your bulldozers in our living rooms, yet you pretend that you can simply go about your business, and we go about ours, and never the twain meet. I tell you this is not so.

The time has come for such delusions to meet the test of reality. Our culture has an ancient entrepreneurial tradition, which, if nurtured, could restore the lost dignity and self-reliance which has descended on us in the lifetime of this gigantic mine. Our Melanesian entrepreneurial tradition differs markedly from yours. Material wealth was not an end in itself, but a means to gain renown, the esteem of one's people. Thus accumulated wealth was regularly distributed back to the people who helped create it. By contrast, you are the head of a corporation, a body which lives and breathes even when you have retired to your farm in Australia. The corporation is an entity which uses the energies of men, but has its own life.

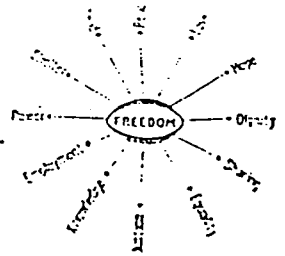




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BOUGAINVILLE INVESTMENT FUND

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The modern corporation does not obey the natural rise and fall of life and death, as does our Melanesian tradition, which distributes a leader's wealth when he dies. The modern corporation obeys the ideology of the cancer cell, to ever grow and grow, without ceasing.

I want you to understand our Melanesian way. I offer you the gift of understanding our culture, because such understanding is the key to transforming BCL's relations with the many peoples of Bougainville. If you appreciate the true nature of Melanesian culture, then you can leave as our friend, knowing we have made a start to building the bridges we must build between your way and ours.

The Melanesian way is energetically struggling to adapt to the invasion which BCL has brought. In every village, people now have fresh expectations. They want vocational training, to build timber houses with long lasting roofs. They want training in self-reliant cash crop growing. They want better roads, and transport, and access to markets. They want trading companies to market their produce, companies which do not grow uncontrollable, but which follow Melanesian tradition, which return profits to the people whose energies create wealth.

While the Melanesian way is struggling with the cash society you have brought, BCL has shown so little understanding or appreciation of the Melanesian culture. So many of your employees are racist, openly contemptuous of us, just as the kiaps were. You have lived alongside us, but not among us. Consider the example of an earlier invasion, that of the Church. It was initially alien, but it brought the good news of compassion, love, justice and humility to the hearts of our people. It is now a national church, evolving a Melanesian theology. Your company shows no such sensitivity. BCL eats, roots and leaves. Your employees insult our national dignity, renaming our nation as Papua Yuginma. BCL workers are told only to keep a low profile. They are given no training whatever in our way of seeing. And you know that our women can be procured for K5 at the Panguna mine.

Thus I come to my specific proposal. This proposal achieves several aims. It meets the needs of our people. It restores our dignity, confidence and self-reliance. It gives us the resources to tackle the law and order problem at its roots. It sets an example to the nation of the dignified way equals meet to resolve their differences. It gives you the friendship of a people who for long have deeply resented you. Once you have won their genuine friendship, it may be possible to begin negotiations over the moratorium which prevents exploration of the rich copper neighbouring the existing mine.

What I propose is not just my idea. You will come to see, in this current national election campaign, and through the North Solomons Provincial Government election campaign which starts as soon as the national election is past, that this proposal has the active support of the people of North Solomons. The will of the people will prevail. If you do not immediately appreciate the wisdom of our proposal, I say to you now that you will, once you can clearly see the dignity and determination of the people.

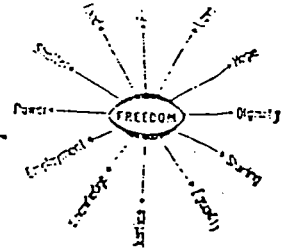
This proposal represents a fresh start. It puts behind us the shameful hijack of Bougainville Development Corporation by selfish interests, and it puts aside BCL's power of patronage through your Bougainville Copper Foundation.



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### BOUGAINVILLE INITIATIVE FUND

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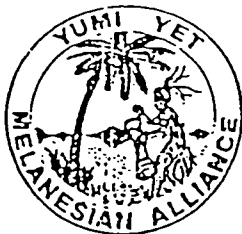
The proposal is this: that BCL set aside each year three percent of its gross income from selling our minerals, to be given directly to the North Solomons Provincial Government. This is untied aid, without strings. It is up to the government of the province to assert its dignity, capability and competence, to determine how that money may best be spent so as to foster the application of the Melanesian entrepreneurial tradition to creating small scale ventures which meet the needs of the people, and which return their benefits to the village people. As a matter of national dignity, it will be for the government to apply such funds. If we are to recover our confidence in ourselves, this is essential.

There can be no question of BCL's ability to pay. Three per cent of gross sales is, on 1986 figures, K12.6 million, a modest figure which will greatly assist the government which has most directly borne the brunt of BCL's presence. BCL staff have told us that you could easily save enough for such an annual payment, simply by utilizing more efficiently the machinery and manpower you have. Gross sales are an appropriate base line, as we do not accept your practice of salting away K60 million a year which you return to the smelters who buy our copper, for the privilege of having them accept your concentrates. We are well aware of transfer pricing and of the existing cartels. If you find three per cent of gross sales unacceptable, our alternative is four per cent of the net sales revenue you declare in your annual report.

The agreement between the national government and BCL is outside the scope of this agreement. This is an agreement to assist the people who most immediately must accommodate your massive operation. We place on notice the urgent necessity of renegotiating the national agreement, given the likelihood that superconductor technology will slash world copper demand, quite possibly as soon as five years from now; and because the mine, when it is closed, will leave us an enduring legacy of pollution, and metal concentrations in our fish for thousands of years to come. By any standard your mining benches are incredibly steep and dangerous. Landslides will be the legacy. The government, national and provincial, will inherit from you not only a giant hole where once there was a mountain, but also the long term expense of cleaning up, and this has not even been discussed with you.

We have another reason for this BOUGAINVILLE INITIATIVE. We are concerned not only for the people of Bougainville. The nation of Papua New Guinea is at a crossroad. One road leads to the repetition, all over the nation, of the tragedy of Bougainville. We have had the Bougainville Development Corporation ripoff, we have had the Placer Pacific ripoff. We can tell the nation right now the names of the next such tragedies. The names are Ok Tedi, Lihir, Misima, Porgera. Each time a few of our leaders surrender to the politics of greed, the nation as a whole moves closer to the rule of money, of a rich few holding onto power, backed by an army which protects them from the wrath of the dispossessed. So many countries have degenerated into corruption and dictatorship. PNG is a vital democracy, and can be saved such a fate, if the people can see how to live with such massive gold mines in a way which asserts the dignified right of sovereign people to ensure that benefit is distributed to all.

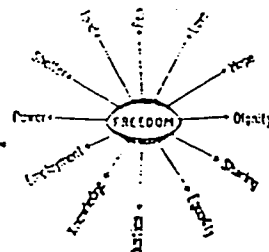
The alternative road facing the nation is to make good use of our deepseated



## MELANESIAN ALLIANCE

P.O. BOX 6516  
GOROKU  
MCD

271625  
Phone: 272161



### BOUGAINVILLE INITIATIVE FUND

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entrepreneurial tradition, adapting it to the modern need for an indigenous commercial culture which brings development to the villagers, harnessing the energies of collective family effort, and ploughing profit back into enhancing that collective strength. Nurturing such enterprise will take time. But there are examples of such enterprises, even if we have now created an elite of rich men who attach themselves to foreign businesses, to whom the Melanesian entrepreneurial tradition is no longer visible.

As the BOUGAINVILLE INITIATIVE takes shape, you will <sup>hear</sup> more from the North Solomons Provincial Government.

One further issue needs to be clearly stated. Because the essence of the Initiative is to encourage local enterprise, we cannot permit BCL to swamp local enterprise by establishing giant supermarkets, at places such as Buin, or Buka, to compete on unfair terms. No local trader can possibly compete with the freight rates you get, through the availability on the ship used to bring in mine supplies of space for imported foods. The National Investment Development Authority cannot permit such expansion of BCL's activities. Be content with mining, and feeding your expatriates on expensive imported food. Do not hide behind your public relations Foundation, and pretend that such supermarkets are a charity. We are asking that you encourage initiative, not stifle it.

The social, economic and environmental impact of fifteen years of mining has not been dealt with constructively and openly until now. If it is left much longer, BCL will be gone. The people of Bougainville are determined to set a positive example to the nation. We will set a standard for dealing constructively with giants such as BCL, so that our people can again control their own lives. We will restore self-reliance, through projects funded by seed capital from the Bougainville Initiative Fund we here propose. Such money can succeed if it is spent by provincial and local community governments. They are the governments closest to the people. Only they can select projects which not only meet community needs, but which in turn generate self-sustaining financial independence for community development. We are resolutely opposed to handouts and the passive dependence they create. What we are after is seed capital, to generate communal funds which are self-sustaining, and which instil pride in community development. I am sure you will acknowledge that BCL has never attempted such intimate understanding of our Melanesian way as to be capable of identifying such projects and patiently nurturing them. Your explicit BCL policy has always been to restrict your funds for large scale projects. Only our own democratically elected representatives can wisely administer such a fund.

I played a major role in the creation of provincial governments, in part as a constructive response to the acute frustrations felt by the people of this home province of mine, Bougainville. Having been a national leader for so long, it is my belief that we must deal directly with each other, as human beings equal in dignity. I do not believe in making splashy press releases. Before publicizing this proposal I have come to you, face to face. I talk straight and true. What is proposed here must come to pass. It will be the public agenda of the coming weeks of election campaigning. But first I come to you, to offer you our friendship, and to wish you a happy retirement to top off a successful career. We invite you to retire in the knowledge that you are not only a mine builder but also a community builder.

May God bless you,

*John Morris*  
FR. JOHN MORRIS

# BOUGAINVILLE COPPER

LIMITED

INCORPORATED IN  
PAPUA NEW GUINEA

11th May, 1987



PANGUNA,  
BOUGAINVILLE, P.N.G.

CABLES:  
"BOUCOP PANGUNA"

Fr. John Momis  
Melanesian Alliance  
PO Box 6516  
BOROKO, N.C.D.  
Papua New Guinea

Dear Fr. John,

In responding to your letter of 4th May, I must first assure you that it has long been my objective to see a larger proportion of the revenue generated by Bougainville Copper Limited remain within the Province. However, there are certain legal and statutory constraints under which I am bound to administer the financial affairs of this Company. These place your 'Bougainville Initiative Fund' outside my authority.

It is unfortunate that we did not have the opportunity to discuss this issue more meaningfully in an environment less dominated by pre-election politics. I believe that the periodic review of the Bougainville Copper Agreement as provided in the legislation under which we operate is a suitable venue for the parties to discuss relative Government revenues.

In the light of your stated intention to make this issue 'the public agenda of the coming weeks of election campaigning', I will no doubt be forced to defend the activities for which I am responsible. I am reluctant to be placed in this position and will do my best to stick to the facts and maintain political neutrality.

The sensationalism which the press have attributed to the issue I see as unfortunate and counter productive to the Company's relationships with Government. To me it is a cause of great personal grief to have this vote of censure cast on all that I have set out to achieve in moulding BCL into a responsible and sensitive corporation. Nevertheless, my disillusionment will not militate against my continued efforts to assist this Province to the best of my ability within the responsibility vested in me.

Yours sincerely,

P.W. Quodling  
Managing Director

## APPENDIX Q

**Arguments for independence,  
as advanced by Bougainvillean separatists.  
8 September 1968.**

Source:

Hannett, L. 1975. The Case for Bougainville Secession.  
*Meanjin Quarterly*, Volume 34, page 290.

The Bougainvilleans are a culturally, ethnically, historically and geographically distinct group of people from the rest of Papua New Guineans.

- i) Culturally, Bougainvilleans feel and accept that they differ essentially from PNG cultures on our main types of dances like kuma and panpipe or bamboo dances. These are not found anywhere in Papua New Guinea. Most important of all, Bougainvilleans firmly believe that we have a distinctly marked different cultural and political ethos - on such fundamental principles as natural and social justice and respect and reverence for life. We believe in fair play at all times and that everyone has his or her rights that must be respected at all times. We do not believe in mob fighting or in the law of the jungle that might is right, and that individuals or groups of individuals can be a law unto themselves... Numerous examples of wanton killing of human life in Papua New Guinea by Papua New Guineans have led many Bougainvilleans to doubt whether Papua New Guineans share with us this conviction that human life is sacred and must be upheld with utmost reverence.
- ii) Ethnically, Bougainvilleans are obviously different from Papuans and New Guineans. We are generally jet black people, having common ancestry with more people down Western Solomons rather than with any groups in Papua New Guinea. Before the white man even set foot on our soil, there was a lot of intertrading among various groups of people in Bougainville. Nissan Islands to the north of Buka traded pigs with Buka people in exchange for clay pots, and clay smoking pipes and ochre paints which the Buka Islanders in turn bartered with pots from Bougainville mainlanders. Except for Nissan Islanders that got their traditional money from Tanga Island in New Island group, the Buka and Bougainville people made their own traditional money or traded them from the South Solomons.
- iii) We have always had a common history of ourselves as distinct from Papua New Guineans. The collective force of common experiences of exploitation, pain, suffering, and neglect from the colonial forces, have brought out more and more this collective consciousness of ourselves as one people defined and confined all the more by our geo-political isolation from the rest of Papua New Guinea.

## APPENDIX R

### **Bougainville Special Political Committee submission to the Constitutional Planning Committee**

Reproduced from:

Mamak, A. F. & Bedford, R. D. 1974. *Bougainvillean Nationalism: Aspects of Unity and Discord*. Christchurch: Bougainville Special Publications, pages 73–79.

BSPC SUBMISSION TO THE CONSTITUTIONAL PLANNING COMMITTEE

Bougainville,  
July 26-28, 1973

The Chief Minister,  
Papua New Guinea Government,  
Chairman of the Constitutional Planning Committee,

Mr Michael Somare;

The Deputy Chairman Constitutional Planning Committee,

Fr John Momis;

All Honourable Members of the Constitutional Planning Committee.

Subject: Report of the Bougainville People in Conjunction with the  
Bougainville Special Political Committee

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Introduction:

This report is a result of discussions held between all Bougainville people and members of the Bougainville Special Political Committee.

The Bougainville Special Political Committee was formed at the Wakunai Combined Council Conference in February this year. It is composed of council representatives, members of associations and Members of the House of Assembly.

The Bougainville Special Political Committee is in fact taking the place of Government Liaison Offices in other districts and its task is to find out true opinion of the people of Bougainville to present to the Constitutional Planning Committee.

The following is a list of members of the Bougainville Special Political Committee:

- |     |                  |   |                                     |
|-----|------------------|---|-------------------------------------|
| 1.  | Samuel Kariup    | - | Buka Council                        |
| 2.  | Hamao Tato       | - | Buka Council                        |
| 3.  | John Teosin      | - | Hahalais Welfare Association - Buka |
| 4.  | Francis Borepiri | - | Kunua Area                          |
| 5.  | John Rivieviri   | - | Kereaka Area                        |
| 6.  | Albert Hannett   | - | Nissan Island                       |
| 7.  | Clement Dana     | - | Teop-Tinputz Council                |
| 8.  | Samson Purupuru  | - | Teop-Tinputz Council                |
| 9.  | John Kungkam     | - | Wakunai Council                     |
| 10. | Simon Putu       | - | Wakunai Council                     |
| 11. | Fabian Tonepa    | - | Eivo Council                        |
| 12. | John Dakeni      | - | Kieta Council                       |
| 13. | Peter Teona      | - | Napidakoe Navitu                    |
| 14. | Luke Kankana     | - | Busiba Association                  |



15.	Aloysius Noga	-	Buin Council
16.	Mathias Wape	-	Buin Council
17.	Andrew Komoro	-	Buin Council
18.	Tony Anagu	-	Siwai Council
19.	Thomas Sipana	-	Siwai Council
20.	Abraham Sapuruku	-	Pikei Christian Customary Association
21.	Paul Kaile	-	Bana Council
22.	Rupina Moi	-	Carterets - Tasman - Mortlocks - Nuguria
23.	Nicholas Pita	-	Mungkas Association - Port Moresby Branch
24.	Simon Tania	-	Mungkas Association - Lae Branch
25.	Joseph Tatsi	-	Torokina Area
26.	Raphael Niniku	-	Arawa Village Leader

Members of the Co-ordinating Committee of the Bougainville Special Political Committee:

1.	Henry Moses	-	Kieta Area and Chairman of Finance Committee
2.	Michael Poowa	-	Buin Area
3.	Moses Havini	-	Buka Area
4.	John Dumit	-	Panguna Mungkas Association
5.	Peter Sissiou	-	Panguna Mungkas Association
6.	Leo Hannett	-	Overall Chairman of Bougainville Special Political Committee

Ex-Officio Members of the Bougainville Special Political Committee:

1.	Fr John Momis	-	MHA (Member of the House of Assembly)
2.	Raphael Bele	-	MHA
3.	Paul Lapun	-	MHA
4.	Donatus Mola	-	MHA

Each member of the Bougainville Special Political Committee has formed Sub-Committees in his area and these Sub-Committees have fully discussed the issues in question.

To obtain the final results of all discussions, i.e. the thoughts of all the Sub-Committees and their opinions, there have been two large meetings called Plenary Conferences which are to bring every committee member to a central point for summary discussions.

The first of these meetings was held at Arawa from May 23 to 25, 1973.

The second meeting was held at Pakia Village, Kieta Sub-district, and at this meeting all reports of all committee members were discussed.

At this meeting discussions were held between members and the Co-ordinating Committee and all grievances, thoughts, opinions, attitudes of the people of Bougainville were summarised as follows:

Listen members of the Constitutional Planning Committee to what we have to say in this report.

*Hear our cries, hear our shouts, take notice of our feelings, take notice of our strong thoughts and our thinking. All our opinions and all our thoughts; you must listen to them thoroughly and put such thoughts and opinions in the new constitution so that this constitution can become law; can become the basis of*

*our country. After listening to and considering and evaluating this report we have made we believe you can establish a good constitution and a good government for this country so that it stands up with honour and truly represents the thoughts and opinions of the people of this country and will also serve and strengthen the people of this country.*

The people who have made this report are firmly convinced that the following changes which they have outlined must be put into practice quickly.

A. DISTRICT GOVERNMENT

1. We the people of Bougainville strongly want District Government as a first step

The reason we want District Government is made clear in the following motion that was passed at the Plenary Conference of the Bougainville Special Political Committee at Pakia Village, Kieta Sub-district, where all gathered members of the committee unanimously agreed.

Motion: The Bougainville Special Political Committee together with all the people of Bougainville want District Government on 1 November, 1973. Bougainville wants recognition of its right to determine that, if some time in the future it wishes to remain within Papua New Guinea or independent, it must have the right to decide its own future.

(Mr Clement Dana, the President of the Teop-Tinputz Council, moved this motion and Mr Hamao Tato, Buka Council representative, seconded the motion. Every person present agreed with the motion.)

Reference Resolution 1 - First Plenary Conference: Arawa, May 23-25, 1973.

2. The people of Bougainville and the Bougainville Special Political Committee asked the Central Government to give their District Government the following powers.

(The following motion was moved by Anthony Anagu, Vice-President of the Siwai Council, and seconded by Samuel Kariup, President of the Buka Council; all agreed with the motion.)

3. The following is a list of powers that the District Government requires:

(a) Legislative Powers: the power to make laws.

1. The District Government must have the right to make some laws; these laws should cater for specific problems associated with individual districts. An example of this would be a law relating to unemployment and vagrancy.
2. Some laws should also try to alleviate specific district problems such as Standard 6 leavers or children who are retrenched from school at an early age. Also some schools should be established to cater for the traditional aspects of individual districts. Culture and tradition should form an intricate part of education and law.
3. There are also certain matters relating to individual districts that are taking up too much of the time of the Central Government. Such problems should be catered for at the district level.

(b) Policy and Decision Making Powers: These laws will apply to determining priorities of the district, and the right to carry out these priorities.

1. The District Government must have the power to make laws pertaining to individual requirements within the district, e.g. where a new High School must be established, where hospitals must be built, the work of agriculturalists, surveyors, road-makers, rural industries, tourist industries; specific district problems are businesses, education, culture and tradition, and the economy.

(c) Executive Powers: laws to carry out the administration of the district.

1. The District Government must have the power to control the public servants and also those public servants working with the Public Service must be responsible to it.
2. The District Government must control each individual department within the district and each department must be responsible to the District Government leader.
3. The District Government must have the responsibility to allocate work and to correct or change work within their district so that maximum efficiency is obtained within the district.

(d) Judicial Powers: courts.

There must be within the District Government the right to hold District Courts who have the power to adjudicate matters pertaining to individual districts.

1. Ownership of land must be settled within the district. (Land titles)
2. The District Government must be able to settle disputes on land.
3. Village elders should be able to settle land problems, but in the event of such elders being unable to settle such disputes, people have the right to appeal for District Court.
4. Village Courts should be established in each district. Now in such cases matters should be settled according to custom by the elders. In each instance the custom should be recorded and laid down as law within the district. Visitors to the district must abide by the laws of custom and it is up to them to learn such laws.

(e) Financial Powers: the power to raise taxes, customs, etc. This right must belong to the District Government.

The Bougainville people consider the right to raise taxes, customs, within the district an important one.

1. The District Government of Bougainville must have full power to control the land belonging to them and control over the exploitation of their natural resources.
2. With regard to non-renewable resources, such as copper, iron, gold, the District Government must establish a law along the following lines:

If a company exploits the natural resources of a district, such as copper, iron, gold, or any other precious metal which cannot be replaced, a law must be established so that whatever company exploits such business resources must place in trust money to compensate for the time when these natural resources are finished.

3. The Bougainville District Government must have the power to raise taxes from such companies as Bougainville Copper or any other big companies which establish themselves in Bougainville.
  4. Royalties received from any mining ventures such as BCP must be paid to the District Government.
  5. The Bougainville District Government must have the power to collect licence taxes, storekeepers' fees, liquor licencing fees, motor car drivers' licence fees, or any other type of registration taxes.
  6. All Court fines must be paid into the District Government.
  7. All income taxes and excise or custom taxes must be collected by the District Government. It is better if the District Government allocates a proportion of collected taxes to the Central Government and not *vice versa* because in the past the Central Government has exploited the district and only allocated a small amount of what it has collected.
4. District Government and the types of government within it.
- (a) Village Government:
1. The people of Bougainville in association with the Bougainville Special Political Committee realise that District Government will only be as strong as long as the people themselves at village level have some representation.
  2. We believe that District Government must recognise that traditional leaders must have the major say in the government at village level.
  3. Each individual area must find out for itself how traditional leaders or elders can make their own village areas good places to live in, and eliminate some of the troubles which we are having with the present system.
  4. Leadership within each individual area must be established in the manner it was done traditionally.
  5. It will be important for the traditional leaders to work closely with young educated people in village areas.
  6. It is hoped that by incorporating traditional leaders in Village Government positions, such leaders will be recognised as before in helping to establish a sound country.
  7. At Village Government level it is hoped that such traditional leaders will be able to settle traditional matters such as landownership, marriages, and minor troubles in the village areas. It will be important to incorporate these traditional aspects which have a chance of survival in the modern situation.
  8. There should be two ways in which traditional leaders may fit into the Village Government level. They can either be appointed as per traditional methods or elected as per modern method, according to the choice of the people.

**(b) Ward Committees:**

It will be important to have a Ward Committee to co-ordinate the activities of the traditional leaders. These Ward Committees will act as a type of senate and will meet on matters which will affect more than one leader's area.

**(c) Council Government:**

The next level of government will be a type of Council Government and this Government will be responsible directly to the District Government.

1. Most of the people of Bougainville recognise that the Local Government Councils of today have no powers and have not got the right to establish strong laws.
2. The Local Government Councils of today are weak and have not got the right or power to collect taxes to any great extent.
3. Local Government Councils existing today also do not recognise the position of traditional leaders.
4. Local Government Councils of today do not recognise traditional laws. It is important that the type of Local Government Council which exists today changes to suit the people.
5. The first important change must be that traditional leaders must be accepted in the council system.
6. It may be that traditional leaders have to be accepted without the normal western type election, although it will be important to have younger people elected in the modern manner.
7. It will be important for representatives of the Council Government to work in close association with the District Government so that there is a co-ordination of development occurring in individual council areas. This type of Council it is hoped will encourage proper development to suit the needs of the people.
8. Representatives of the Council Governments, say one or two from each Council, will be appointed to form the District Government.

**(d) District Government and District Assembly:**

A strong opinion of the Bougainville people and the Bougainville Special Political Committee is that the District Government must have all the powers that we have stated, which in effect are:

- A. There must be strong laws pertaining to the political, social and economic development of the district.
- B. The political head of the district must have strong powers.
- C. This political head must be elected by all the people of the district.
- D. The right to govern the district must belong to the President, or whatever name is decided upon, but only in association with his Cabinet.
- E. The Cabinet of the President which administers the District must come from those elected to the District Government.

- F. The members of the District Assembly are elected by each Council Government as in (c) 8.
- G. The District Assembly must sit with the President of the District Government and must have the power to make laws or to ratify the administration of the district and must also be in a position to allocate funds to each Council area. Within each district there must be a Chief Secretary or position similar to this.
- H. The role of the Chief Secretary will be to administer the laws made by the District Government and the District Assembly. The Chief Secretary will be in effect the senior public servant and, as such, will work in association with each administrative department and the public servants working for those departments.

### Final Summary

#### Members of the Constitutional Planning Committee:

We have discussed in this report at great length the type of District Government we want and how it will be composed. Why we are worried is that we do not consider that we are prepared to go ahead with the rest of Papua New Guinea in obtaining Self-Government and Independence. We want you to hear our plea and give us District Government so that we can incorporate some of the changes we feel necessary before we go ahead. If the Central Government cannot give us District Government by 1 November, 1973, we have moved the following motion to speed up changes on Bougainville. The motion is as follows:

"While waiting for the House of Assembly to ratify submissions of the Constitutional Planning Committee and make them law, we the people of Bougainville ask the Central Government to give us a special purpose authority so that we can assume the responsibility in Bougainville for the requests we have made in this submission."

(Motion moved by L. Hannett and seconded by Raphael Niniku representing his people; the motion was passed unanimously.)

We want to repeat the motion that we have passed which is: "The Bougainville Special Political Committee together with all the people of Bougainville want District Government on 1 November, 1973. Bougainville wants recognition of its right to determine that, if some time in the future it wishes to remain within Papua New Guinea or independent, it must have the right to decide its own future." We repeat once more that Bougainville wants the Central Government to give it District Government on 1 November, 1973.

We thank you for hearing this submission.

Henry Moses  
Michael Poowa  
Moses Havini  
John Dumit  
Peter Sissiou  
Leo Hannett

FOR AND ON BEHALF OF THE BOUGAINVILLE PEOPLE

## **APPENDIX S**

### **Declaration of Independence of the Republic of Bougainville**

Source:

Oliver, D. L. 1991. *Black Islanders: A Personal Perspective of Bougainville 1937–1991*. Melbourne: Hyland House, pages 242–243.

Declaration of Independence - Republic of Bougainville. In the name of God the merciful Father, ruler of nations and Lord of the Universe,

WHEREAS Bougainville Island was politically separated from the Solomon Group of Islands and seeded [sic] to the German colony of New Guinea by an agreement made in 1886 between England and Germany, and was subsequently included in the Australian Trust Territory of Papua and New Guinea in 1918 and WHEREAS Bougainville was then included in the Independent State of Papua New Guinea despite the objections of the people of Bougainville, on the 16th September 1975.

AND WHEREAS Bougainville is geographically apart and its people culturally distinct from Papua New Guinea.

AND WHEREAS it has been a long standing wish and aspiration of the people of Bougainville to become a separate independent nation.

AND WHEREAS in 1989 Papua New Guinea declared and fought a war against the people of Bougainville the result of which has been the withdrawal of all police, army, navy and judicial functions from Bougainville.

AND WHEREAS Papua New Guinea still declares that it has jurisdiction and authority over Bougainville and has begun imposing an economic embargo against Bougainville.

AND WHEREAS the Bougainville Revolutionary Army has since been in total control of Bougainville on behalf of its people.

AND WHEREAS Papua New Guinea has again declared its intention to invade Bougainville and subjugate its people.

AND WHEREAS Papua New Guinea has refused to recognize the democratic rights of the people of Bougainville.

AND WHEREAS it is the inalienable right of a people to be free and independent.



Now therefore, I Francis Ona, Interim President of the Republic of Bougainville, DO HEREBY PROCLAIM AND DECLARE on behalf of the people and the government of the Republic of Bougainville that as from today the seventeenth day of May in the year one thousand nine hundred and ninety Bougainville shall be forever a sovereign democratic and independent nation; founded upon the principals [sic] of liberty and justice and eve seeking the welfare and happiness of he people in a more just and equal society.

Francis Ona  
President

## APPENDIX T

### **Text of the 'Endeavour Accords' between representatives of the PNG Government and Bougainville**

Source:

*Bougainville: A Pacific Solution*. 1994. Report of the Visit of the Australian Parliamentary Delegation to Bougainville, 18–22 April, 1994. Canberra: Australian Government Publishing Service, pages 75–76.

A delegation of the National Government, led by the Right Honourable Sir Michael Somare, GCMG, MP, held broad-ranging talks with a delegation of Bougainville, led by Mr Joseph Kabui, from the 29th July to the 5th August 1990 outside Kieta Harbour, aboard [sic] Her Majesty's New Zealand ship, Endeavour.

International observers from Canada, Vanuatu and New Zealand were present at the talks.

The two delegations welcomed the opportunity for face-to-face dialogue, and agreed that this process should continue.

They agreed that the long term political status of Bougainville is to be addressed as part of the continuing dialogue.

Meanwhile all political declarations with respect to that future status are deferred.

The National Government delegation confirmed that at the earliest opportunity it would take all practical steps consistent with the Constitution of Papua New Guinea to bring about the return of services to Bougainville.

Such restoration of services would be done without force. But should personnel responsible for restoring services be interfered with, the Government of Papua New Guinea reserves the right to withdraw services where such interference occurs.

The return of services, particularly health, education and communications are accepted as a matter of urgent priority.

The two delegations agreed that in order for services to be restored on Bougainville, the security of personnel must be fully safeguarded.

The Government of Papua New Guinea will consult regularly with the present Bougainville delegation on the restoration of services.

The two delegations agreed on the desirability of the full participation of Bougainvilleans in future security arrangements on Bougainville.

The two delegations thanked the Government of New Zealand and the Royal New Zealand Navy for their generous assistance in making a venue and support facilities available for the talks.

The two delegations also thanked the observers for their cooperation.

## APPENDIX U

### **Extracts from the ‘Honiara Declaration’ between representatives of the PNG Government and Bougainville**

Source:

*PNG Times*, 24 January, 1991. Reproduced in *Bougainville: A Pacific Solution* (1994). Report of the Visit of the Australian Parliamentary Delegation to Bougainville, 18–22 April, 1994. Canberra: Australian Government Publishing Service, pages 77–80.

### ***Principles.***

6. We desire peace and reconciliation with each other and with our Heavenly father.

We take joint responsibility to restrain from the use of weapons and arms to create an environment of peace and harmony as well as a precondition to justice and peace.

We agree to defer discussions on the future political status of Bougainville and have further agreed to embark upon a joint programme of Peace, Reconciliation, and Rehabilitation, within the current constitutional framework of the Nation of Papua New Guinea.

We reject violence and seek meaningful consultation as a means of solving the crisis, and deeply mourn the loss of lives and destruction of properties, and trust in the common fatherhood of God and resolve to find lasting justice, peace and security on the Island of Bougainville.

We recognise the importance of establishing legal and representative authority in Bougainville to assist in returning the island to normalcy.

We recognise the constitutional role of the PNG Defence force.

We agree to accept external assistance including a multinational supervisory team (MST) to contribute to the implementation of this programme under the framework determined in this Declaration.

We commit ourselves to the welfare and security of all individuals and organisations who participate in this Programme.

We endorse maximum Bougainvillean involvement in the implementation of this Programme.

### ***Definition of 'Programme'.***

7. The 'programme' in this Declaration means the Package of phased arrangements for the restoration of services on Bougainville including:-

#### **Phase I**

- (i) Peace and Restoration.
- (ii) Lifting of the Blockade.
- (iii) Establishment of a Task Force.
- (iv) Establishment of Interim Legal Authority.

## Phase II

- (i) Restoration of Services.
- (ii) Rehabilitation Programme including maintenance and reconstruction; and other associated activities determined by the legal authority in Bougainville in accordance with this Declaration.
- (iii) Future negotiations.

### ***Task Force Membership.***

8. In order to facilitate the execution of this Programme, we agree to hereby establish a Task Force which shall consist of representatives appointed by the National Minister for Provincial Affairs, in consultation with an Interim Legal Authority.

### ***Terms of Reference.***

9. We agree that the terms of reference for the Task Force shall include:
- (i) Planning, co-ordination and implementation of this Programme;
  - (ii) Monitoring and supervision of this Programme;
  - (iii) Investigate and determine the scope and components of the projects under this Programme;
  - (iv) Investigate, mobilise and secure all financial avenues at its disposal to finance this Programme;
  - (v) Develop a detailed timetable to implement this Programme which must be submitted to the Minister for Provincial Affairs for Final approval as soon as practicable following their appointments;
  - (vi) The Task Force shall report to the Legal Authority in Bougainville;
  - (vii) Furnish monthly reports or otherwise as directed by the Legal Authority in Bougainville; and
  - (viii) Undertake other responsibilities as directed by the Legal Authority in Bougainville to implement this Programme.

### ***Obligations and Responsibilities.***

10. Parties agreed to take the following actions:-

#### ***National Government***

- (i) (blank).
- (ii) Grant amnesty and immunity from prosecutions to the members of BRA, and BLF in accordance with legal and constitutional requirements of Papua New Guinea.

- (iii) Organise a multinational supervisory team to participate in this Programme.
- (iv) Commit and disburse funds to the Programme under its normal budgetary allocations.
- (v) Allow and facilitate non-government agencies, including churches and community groups to contribute towards the successful implementation of this Programme.
- (vi) Resume all government services including public and statutory administration, law and order and justice.

*Bougainvillean Side*

- (i) Disarm the BRA, BLF and its associated military activities including the surrender and destruction of arms under the supervision of the Multinational Supervisory Team.
- (ii) Release all detainees held as a consequence of the conflict.
- (iii) Guarantee the safety and welfare of the members of the Multinational Supervisory Team.
- (iv) Assist the Task force and the Legal Authority in Bougainville to expand funds towards effective implementation of projects to be developed under this Programme.
- (v) Receive and facilitate non-government agencies, including churches and community groups to contribute towards the successful implementation of this Programme.

*Programme Schedule.*

11. We agree that the following Time Schedule shall be adopted to implement this Programme from the signing of this Declaration:-

- (i) One (1) week to one (1) month – establishment of the Task Force and assembling of the MST.
- (ii) Between one (1) month to six (6) months – project identification and resource mobilisation.
- (iii) Eighteen (18) to thirty-six (36) months – completion of the Programme, abolition of the Task Force, return to normalcy.

*Reviews and Consultations.*

12. We agree that this Declaration shall be reviewed at least on a six (6) monthly interval until the conclusion of the Programme in accordance with the Programme schedule.



13. Notwithstanding the foregoing paragraph, the National minister for Provincial Affairs may request a review either independently or on advice of the Legal Authority or the Task Force.
14. The Programme under the Declaration does not for the time being include the programme of restoration of services undertaken by the National Government on Buka and adjacent islands.
15. The National Minister for Provincial Affairs shall determine and reconcile the relationships between these two programmes on advice from the Legal Authority in Bougainville.

***Dispute Settlement.***

16. We agree to resolve any dispute including conflict or misunderstanding arising from the Programme under this Declaration through consultation and dialogue.
17. Where resolution of disputes cannot be reached, each party may recommend arbitrators for approval by the other. When appointed, the arbitrators shall work towards resolving any such conflict and misunderstandings.
18. This Declaration shall be terminated upon completion of this Programme or by one Party when acts of sabotage or similar action inconsistent with the spirit or letter of the Declaration taken by the other.

## **APPENDIX V**

### **Transcripts of respondent interviews**

## **RESPONDENT INTERVIEWS**

Appendix V contains transcripts of the interviews conducted with three past executives of the Panguna mine, as well as an Australian who grew up on Bougainville. A small number of passages have been excised from the original conversations so as to shield the identity of the informants, however none of these omissions impact on the factual, interpretive or contextual material of the interviews.

### **INTERVIEW ONE**

Location: Adelaide, Australia.

Duration: 2.5 hours.

This respondent was a key executive in the establishment of the Panguna mine. He was involved in the preliminary negotiations with the Australian and PNG authorities, and was intimately involved with the Bougainvillean people during the mine's formative years.

#### **Interview Transcript**

The Bougainville people came from the South Solomons and populated the islands on the way up and they really did not have any cohesive way of living. The people who know most of what they do are probably the Catholic missionaries who have been there for a long time. When the trouble started, the missionaries sat on their hands because they wanted to be in control of the people. A lot of the mine employees were educated by the Church and [Father] Momis was one of them; he was probably on a short list of people who could have been Bishop of Bougainville. So most of them had a church background.

My fears for the peace settlement is that most of the people come from little blotches of people all over Bougainville who have a different cultural background. The basic problem is the Bougainvilleans' lack of seeing themselves as a united people. When I started working with the idea of the mine, the division amongst the Bougainvilleans was apparent, but not openly so. I was in charge right from the start, so people may blame me for anything that went wrong, but they may also give me some credit for all the things that went right. I was very well aware of the strength of the Church and I spent a lot of time talking to the local missionaries and I learned a lot from them.

Generally, the missionaries gave me good advice. But I think that is where the problem may lie; too many groups of people who are not very broad in their outlook.

My father was a mining engineer and he worked in Burma; I was born in Burma. My father and mother both came from Adelaide and I went to school in Adelaide. But I was quite a bit influenced by what happened in Burma, so I applied some of that knowledge to Bougainville and did my best to check on what happened in other parts of the world where mining companies tended to operate. Very wrongly in the eyes of some people, I persuaded somebody I had a lot of respect for to do a tour of Africa and come back and tell me what we ought to be doing. My board told me I was crazy, but I took no notice. This man told me that the people of West Africa who were from a British background did not have much time for the locals, and advised me not to take too much notice of the Australians in Papua New Guinea because they were part of the Australian government and they took too much notice of the Department administering the Territory under the trustee arrangement. There were not many parallels between the Bougainvillean situation and that in Africa.

I was an unusual [person] in that having spent my early days in Burma, I had very strong views on what we should be doing in the interests of the local people. I could see the problems in Burma of the Englishmen who came out and looked down on the Burmese. They sent some Burmese to England for training, but did not give them any opportunities to get promoted, and the same sort of thing was happening in PNG with other English and Australian owned ventures. I wanted the Bougainvillean people involved from the beginning, so I spent a lot of time getting to know them. It must be remembered that it was their country.

The missionaries did not treat the Bougainvilleans particularly well. They weren't anything in the [church] hierarchy; in the mission complex, the locals lived the native quarters and very few of them lived with the expatriate clergy. The expatriate missionaries were a mixture of Dutch, American and Australian, but not too many Bougainvilleans. A few of the brighter Bougainvilleans went to secondary school and then went to tertiary institutions scattered around the planet. Some, like Momis, became priests.

Many of the problems in the establishment period related to working out who owned the land where the mine would be situated. In time we got that fairly well

settled. I was responsible for the policies of employing mainly Bougainvilleans, and the [indigenous] people were happy with that at the time. But looking back on it, perhaps the percentage of local employees was not enough. The influx of PNG workers caused some problems because most of the ones that we had were tribally different to the Bougainvilleans and were better educated. Being better educated, they rose through the ranks of the company faster than the locals and this caused friction with *some* Bougainvilleans.

We had three different styles of accommodation. We had the fellow straight out of the jungle in the basic rooms; we had a number of people at apprenticeship level who lived in different accommodation, and we had some in more Western-style lodgings. We brought them into the bottom accommodation; some graduated up and some did not - this was at their option.

The question as to what [management] should have done differently is not simple. As you talk to [the other past executives], you will get three different answers. I tended to listen carefully to what the Church had to say. [One executive] was more the type who did not worry about what the Church thought; he did what he thought. I think [the other executive] was probably more inclined to listen to the government.

The Church suggested that we were too generous in our compensation. They might have seen that compensation would cause a wealth gap between Bougainvilleans, but I suspect that while the Church wanted us to help the local people, it was worried that we might push the clergy aside. I think that the Church might have unconsciously felt threatened by the mine's influence on the people.

Looking back on it, I think we should have been more forceful in bringing the local people together. By the local people, I mean Bougainvilleans from many villages and others from around PNG. We employed as many secondary educated Bougainvilleans as we could get hold of, but there was not enough of them. For apprentices, we had to go outside Bougainville to recruit. We were recruiting fellows from Rabaul, Lae and Port Moresby. We were taking the cream off the top of PNG students and workers, and this would have rankled the Bougainvilleans. Just how we might have brought these many people together, I'm not sure, but it might have been easier if we had started in the early days.

When it was decided to go ahead with the mine, there was no significant expressed resistance from the Bougainvillean people that I knew of. The government adopted the attitude that “we’ll fix all that”. Port Moresby, I believe, overestimated its own ability to evaluate and manage the whole situation. And the mine had no choice but to rely on the government in these matters; it was bound by the rules and regulations of PNG. To some degree, PNG now has to fix the problem it created.

When the mine started, we did not know the extent of the environmental damage. We knew there would be an impact on the land, but there was no way of knowing just how big it might be. Compared to other mines, Bougainville was a very high tonnage operation and so a large amount of material went down the river system. This would be a problem, but in the 60s, we did not see it that way. We expected most of it flow out to sea, and it did, but a lot remained in the river itself. We did our best to minimise the damage by using only one river system, and the material that was deposited in the river was in an uninhabited area so it did not affect the local people very much. I really don’t think that the environmental question was the root cause of the Bougainvilleans’ grievances. It was an issue, but not the main one. In the beginning, the people could not picture what the long term effect was going to be. When they saw the accumulation of the tailings, it concerned some of them, but people like Ona had to have something to complain about, and the river was a good target. But I think most of the native population were pretty happy; they were well looked after, they were well paid, they had good accommodation - by their standards.

It seems to me that the revolution was the result of a discontented minority rather than the way most people thought. The mining lease was fairly close to the village where Ona lived, and that stirred the pot a bit.

I don’t think the PNG government was very interested in the Bougainvilleans. They might have had some concerns about the natives’ grievances, but not to a very large measure; they were more concerned by the revenue.

The company saw it as its duty to look after the Bougainvilleans as best it could, despite the Church’s urgings not to be too generous. And in those days, this was a very advanced approach. We were providing good accommodation for Australian staff and we were careful to make sure that the accommodation for indigenous people was not inferior. We tried very hard to maintain an equitable situation. Our policies towards the Bougainvilleans gradually evolved; we were

not able to set them up from the beginning because we were not always sure what would be appropriate. But we were generally satisfied with them, and I believe the Bougainvilleans were also satisfied on the whole. Although the management styles of the executives differed, I believe we all had a common concern for the welfare of the locals. We may have put different emphasis on different points, but it is fair to say that throughout the years of the mine's operation we were always sensitive to the people whose land we were using.

I think the reasons things went so wrong was that we were not able to foresee the forces that were building up. There was no indication from the local people of the feelings that were going on under the surface that I knew of. Remember I was not there at the time, but it seems that the seriousness of the situation was not really evident until the power pylons were blown up. The PNG government did not have much to offer as a solution to the mine's troubles at that time; reliance on the rule of law was inadequate I think. Of course at that time in a developing country like PNG, most of the senior people had been out in the bush most of their lives. They had not had much broad experience in a lot of areas, so when the trouble started, they were left wanting. Also, there were very few people in Port Moresby or Canberra who had any understanding of what was going on.

Because most of the discontent was underground, it is very hard to say what the company could have done to avoid the closure. Maybe it could have foreseen the problems or maybe there was something which it could have done, but I don't know what.

The government is probably hopeful that the mine will be rehabilitated, but I don't know how it is going to because there is a lot of money involved and nobody is being very bright about where it is coming from. The equipment has sustained considerable damage. We have not been able to get people in there to check up on the situation. No mining company would be very interested at this point I should think.

When the Bougainville Crisis erupted, many people blamed the mine. But I think the mine was a catalyst for the trouble, not the cause. If the mine had not been there, it may not have happened or it may have happened at a future time.

## **INTERVIEW TWO**

Location: Adelaide, Australia.

Duration: 2 hours.

This man managed the Panguna mine during the early period of its operation, and remained closely involved with the venture for many years through various executive roles in the parent company.

### **Interview Transcript**

We had an ideal operation which ran very satisfactorily for the best part of 18 years, and when you take into account the political situation before we started, the fact that [PNG] got to independence in 1975 and that we went so well for 14 years after independence was because of good management practices. And I should say that all the credit for the success of Bougainville should go to Frank Espie. He was the king of Bougainville; the person with the ideas - a man who was ahead of his time in terms of trying to find out the way to do things in a foreign and undeveloped society. He is a very modest individual and he probably [would not] confess to the credit he is due. It was because of Frank's thoroughness in the way he went into the background of Bougainville that things went so well for so long. I feel very sorry for Frank that the whole thing blew up.

Compared to the Australian and PNG governments, the company went to no end of trouble to recruit international experts in all areas in order to get the best advice possible as to how to go about creating an operation of this magnitude in such a region with a minimum impact on the local people; and wherever possible, with benefit to the local people. But, it is impossible to develop anything of this size in a place like Bougainville without it having some negative impact on the community. The governments did very little in the development of Bougainville. They relied only on their internal people to look into various aspects, but none of them went to any great deal of trouble - if any at all - to go outside their own public service in order to get answers to some of the problems. Bearing in mind that Australia did not have a lot of experience in this area, and PNG had less.

Frank Espie travelled the world in great detail and spent a lot of time talking to people who were involved in mining operations in Africa in particular to find out from them what had gone wrong in the past and what they would do



differently if starting up from scratch again. It was only very shortly before Bougainville's commencement that Zambia had nationalised their copper mines. Prior to that the mines had been run by two major companies, but in the mid 60s Zambia wanted more money and decided the way to get more money was to acquire bigger interest in the mines. And so, with the agreement of the companies, they acquired 51% but the companies still ran the mines. The Zambian government did not have any money, so it paid for their share of equity with the dividends they received in the future. The upshot being, all the money they were being paid in dividends they were paying back to the companies, so they were getting even less money than they were before. Eventually, the government thought the only way to do better was to acquire even more equity and they nationalised the mine and kicked the companies out. Instead of things improving, having disposed of the expatriate management, things went from bad to worse. On top of that, the agriculture which was run by white Rhodesians was taken over and run by locals, and farm produce dropped dramatically. Agriculture turned from being an export to an import. Then the mine had to support the starving people by buying food. By the 70s, the mine was shut and the copper remained in the ground. There were plenty of other similar stories from Africa. This is the sort of thing that Frank Espie tried to learn from to make sure it did not happen in Bougainville. Frank recruited a couple anthropologists - one from Fiji and one from Harvard - and they were very helpful in advising us on how to go about developing the area with minimum impact on the local people.

Frank Espie was advised to recruit training experts to train the local people because it was pointed out that if we waited on the local education system we would wait forever to get people who were sufficiently skilled to run the mine. Frank believed it was essential to have as high a proportion of Papua New Guineans working in the mine as was possible. The government did not stipulate the expatriate-national ratio; Frank did it voluntarily because he maintained he was not interested in having an agreement which was satisfactory to the Australian government. He wanted an agreement which would be satisfactory to the first independent PNG government. And I think he succeeded; it was a fair and reasonable agreement.

The unfortunate part about the procedures of starting up was that in the period between the agreement and the start up which was 4 years, was that the price of copper went through the roof. And so the first full year of operation showed an enormous profit - a greater figure than anyone ever imagined. This upset the

Papua New Guineans who maintained that we ~~knew~~ that this was going to happen, and we had taken them for a ride. So they immediately started re-negotiating the agreement, and hence the less favourable 1974 agreement. These talks started in 1972 and in order to prepare for a re-negotiation, myself and another executive were sent to Africa to visit a number of government operations in order seek advice as to what we should do about the PNG government's demands. That way we could stand on our dignity and say this is an agreement which was approved by government and if you don't like it, it could go to an international court of law for arbitration. We visited Zambia, Zimbabwe, Tanzania and Ghana; in every case they said we had no alternative but to agree to a new agreement because internationally it would look bad if we did not.

There is no question that the preliminary work that was put into anthropological research and training was first class. The workforce at Panguna was very good. Technically, the operation with the high local labour content of about 80% was as good as I've seen anywhere in the world. The Papua New Guineans and Bougainvilleans made excellent operators and excellent tradesmen. In every way, costwise, safetywise and in every way, our operation was better than any of the other CRA operations in Australia. This was mainly due to the efforts that went into training. In fact, it was so successful that CRA introduced the same training procedure into its Australian operations. One of the penalties of the shutdown on Bougainville is that there is no longer any organised training or apprentice training in PNG because other companies who are there have not done anything about training. So you can see that training was another area in which Bougainville Copper was a leader.

We made some mistakes. The biggest error we made was to think that we, as a company, were there for the benefit of all Papua New Guinea. For instance, people in Australia can understand that the benefits of operations in Australia should be shared equally between all Australians, and this is done through the distribution of wealth by the central government. Our agreement was with the PNG government, and we saw Port Moresby as our chief area of control and they were the people who made the laws for the country. And so whatever we did, we had to do it with their approval. If we had their approval, then it was legally acceptable and correct and we were able to do it. This was a mistake because nobody in PNG considers themselves as a Papua New Guinean. The country's biggest problem is its fragmentation. It has over 700 different languages (not dialects), and each language group lives independently. Each

group is only concerned in its own interests and region. There is little communication between groups.

This fragmentation causes obvious problems for those who are elected to government. They are elected solely to look after their own particular language group and because there are 100 members of parliament and 700 different languages, each member is representing on average 7 nations almost. Of those 7 nations which they represent, they are only interested in one, and that is their own language group. So their group gets priority and the other 6 get ignored. Thus at every election, there is almost 100% turnover of politicians because 6 out of 7 constituents are opposed to him. Knowing that he will only be there for 5 years, each member tries to fill his pockets as high as he can and do as much as he can for his language group. He has no interest in doing anything for his electorate or in doing anything for the country as a whole. You can see that the nation has tremendous problems, and they are getting worse every year. Now we were not aware of this when we went to PNG. We wanted to be a model citizen and we made sure that what we did was to the benefit of the country as a whole. And so everything that we did was with that in mind.

Our negotiations were with the central government, which was right and proper. But at the negotiating table, not one Bougainvillean was present and as a result, the Bougainvilleans had no say in either the original agreement of 1967 or the renegotiated agreement in 1974. Now having said that, the company had a Bougainvillean on our side of the table representing the company; he was one of our directors. But the government had nobody there representing the Provincial Government, and had there been anybody there for the Provincial Government it probably would have been the District Commissioner - and he was an Australian anyhow. So that would not have benefited the situation at all. So there was nobody there representing the Bougainvillean issues, and then when we drew up our program of the workforce, our objective was to recruit the best people we could from the whole of the country. We saw that because we were located on Bougainville, there should be a higher proportion of Bougainvilleans than anyone else and as a result of that we had about 40% Bougainvilleans.

But the result of having 40% Bougainvilleans meant that there was 60% non-Bougainvilleans. Although we thought that was a fair distribution across the country, the Bougainvilleans wanted 100% Bougainvilleans - no Papua New Guineans. We at no stage considered that because it was not possible to find the standard of people necessary if we confined recruitment to Bougainville. There

is a copper mine on Misima Island which started after we did. They agreed that they would recruit only local people and if they weren't available from Misima, they would recruit people from overseas. This was acceptable to the people of Misima because, like Bougainvilleans, they would rather have foreigners than other PNG races. So it is not only Bougainvilleans who have this problem. I'm sure that if the mine ever started up again, it would be on the basis that the only nationals there would be Bougainvilleans. These were our fundamental mistakes: we did not insist on Bougainvilleans participating in the negotiations and we tried to help the employment situation in the entire country. The same mistake was made in relation to the [Bougainville Copper] Foundation. We set up the Foundation as our donation arm of the company, and the objective was that we provided donations to the country as a whole. This was not acceptable to the Bougainvilleans.

The government's motivation in excluding the Bougainvilleans [from the 1967 and 1974 negotiations], I believe, was that they wanted to maintain control over who got what out of the agreement. I'm sure that the PNG government were not prepared to give the Bougainvilleans more than they already had. If you look at it from the point of view of the central government, they maintained that the standard of living on Bougainville was already higher than anywhere else in the country. They had a better hospital, better schools, better roads, better everything than the rest of the country - particularly the highlands. They had enough problems in the highlands, and they maintained that they could not afford to give any more money to Bougainville because they needed every dollar they could get out of the company to go to the highlands. So they refused to give the Bougainvilleans any more. I'm sure the government did not appreciate the depth of feeling among the Bougainvilleans about this stance.

The 1974 Agreement was not, in retrospect, all that unreasonable from both sides although we thought it was pretty rough at the time. The terms were fairly similar to other like projects around the world. But it was only reasonable if both sides performed what they were supposed to perform, and this is where the government fell down. The government was supposed to provide very good facilities on Bougainville (education, health, law and order, etc), but they did not do it. And in each case, because these things were vital to the future of the company's operation, the company was forced to spend the money necessary to assist in providing those facilities. So we had to hire our own security group to assist the police, we had to build our own hospital, we had to supplement the education budget so the government could afford to pay the teachers, and so

forth. This was unsatisfactory, and I'm sure the government felt that if the Bougainvilleans needed things badly enough, the company would make sure they got it. But the company really could not afford to be spending any more money than it already was on the local people; it was unreasonable to expect the company and its shareholders to foot the bill for everything the people wanted when it was the government's job. There had to be a limit. We bent things as far as we could to help the locals but if we had have realised things were going to blow up the way they did, we would have pressured the government more. So I guess you could say one of the other things we did wrong is that we did not thump the table hard enough in terms of insisting that the government provide the Bougainvilleans with a bigger slice of the action, or that they sit down with the Bougainvilleans and renegotiate the agreement between themselves so they satisfied the Bougainvilleans on what should happen.

When we arrived in 1964, the Bougainvilleans thought they were very isolated and rejected by Port Moresby. They never saw anyone from Port Moresby and were left very much to their own devices. They were a forgotten island. And even in those days, the population was sufficiently small to be able to provide enough food for themselves and they had a good climate. I guess the government felt that they did not need any more than they were already getting. But they had aspirations about wanting a lot more and, of course, with the advent of radio and communication, the Bougainvilleans got some idea of what was going on in the outside world and I suppose they reckoned they needed more than they had. This was not unreasonable.

Concerning compensation to the landowners, there was a regular renegotiation of the terms on a regular basis, and the chairman of that negotiating team was one of the members of the Provincial Government, Mel Togolo; he was also a director of the company. He had been negotiating with the people of the area in 1986, and they agreed with the terms and conditions of our operations. Another thing that needs to be recognised is that the people who created all the trouble and started the rebellion were not the people who were representing the villagers and who had been negotiating with us. We were negotiating with the men who were considered the heads of the villages - the relationship between them and the company was good, and we had reached agreement on compensation and the like. But the people who created all the trouble were the next generation, and they were not a recognised group; they had not been elected to any position and they were being ignored by their elders and the company. The company felt that the people that they should be dealing with were the elders who represented the

community. In fact, Ona had two problems; one was that he was a second generation, and the other was that he was married to a non-Bougainvillean. Being a matrilineal society, land ownership is passed down through the women, so compensation was paid to the women or their descendants. As Ona was married to a non-Bougainvillean, he was not getting any compensation because his wife did not own any land. So this was a cause of discontent as far as he was concerned.

I guess there was one other mistake the company made, and that was that in our efforts to localise employment to the highest level possible, we appointed Papua New Guineans to senior positions whenever we could. The most senior PNG person in BCL was a Bougainvillean who was in charge of Human Resources. That covered both employment issues and community [relations], and was regarded as a very important area of responsibility. In fact, it was stipulated in the early days by Frank Espie that if anybody was to get to the top of BCL, they had to have had experience in the HR/community relations area. When the organisation was first established, we had a General Manager and three assistant GMs reporting to him: production, finance & administration, and employment/community relations. Paul Quodling was responsible for finance and administration. When the first GM went back to America, I was made GM and Quodling took over employment and community relations because it was the most important position in the company. When I left, Paul became GM. I mention this to emphasise the importance we placed on this position. The person who took over from Paul Quodling in charge of employment/community relations was a senior technical person who did an excellent job, but he was retiring and we were looking for a replacement for him and we thought who better than this Bougainvillean. This man was very capable and highly regarded and had a very good working relationship with all our senior people.

In retrospect, that was a big mistake and it was made out of ignorance because we figured a Bougainvillean would be the correct person to have there. What we did not realise was that this man came from the Siwai in the south of the island and not from the Nasioi area where the mine is, and consequently any complaints that came to him through the Nasioi group he ignored because he had no feeling for them and hated them. Now I have no proof of this, but evidence would seem to strongly indicate it. I did not recognise this until after the whole thing blew up; I was always aware of the tension between the language groups on Bougainville, but I was not aware of the depth of their ill-feeling. We always thought that the Bougainvilleans were fairly homogeneous

in their outlook on life. But it is now obvious that the only thing they agree on is the fact that they hate non-Bougainvilleans. But if you isolate the non-Bougainvilleans, they hate each other almost as much. This is the same across the whole island. In fact on one of my later trips there I visited a Roman Catholic priest who was living in the Panguna area, and he told me that this Bougainvillean executive was not telling management the truth about what was going on. He was telling us only what he thought we wanted to hear.

We all had a good relationship with Father Momis, especially Paul Quodling. But unfortunately, when the crunch came, I think that Father Momis was in a position to be able to do more to control the situation than he did. I'm sure [if he realised] how bad things would get; I don't think for a minute that he would have instigated the trouble that occurred deliberately. But I think that when things were getting nasty, if he had appeared on the ground and had a meeting to say we need to stop this; let's sit down and talk about this, let's agree that the mine should stay closed until we have got everybody on side, that would have saved the day. But when it blew up, the Church did nothing. The Bishop did nothing, Momis did nothing - and the Church had more influence over the Bougainvilleans than anybody else.

Another mistake we made was not taking the letter [i.e. 'The Bougainville Initiative'] more seriously. That should have rung all sorts of alarm bells and should have forced us to sit down with Father Momis to get to the bottom of the problem. One of the things I have learned about people in general and Papua New Guineans in particular, is that you cannot talk too much or listen too much. You need to talk and talk and talk and listen to what is really worrying them. We were more content to keep the operation running at maximum output rather than worrying about the feelings behind this letter. In retrospect, keeping the mine running meant absolutely nothing; if we had shut the operation down the day we got the letter and left it shut for 6 months while we talked and did nothing else, it would have been a hell of a lot better than what has happened over the past 10 years. So instead of writing this one page reply which said this is not possible (thus taking a Western-style approach), we should have gone to every length to get to the bottom of it. I must emphasise that our response was agreed to by everybody - it was not a Paul Quodling only response.

That situation was even more so when the letter arrived from Pepetua [Serero] asking for 10 billion dollars in compensation. We have since been told that on Bougainville, when the men are involved we need to worry, but if the women

are involved you have a major problem. The fact that a woman wrote the letter is something that we should have reacted to immediately - although she had no authority, she was a senior woman in the Guava village. The sum was so huge that we thought it was a bit of a joke. In fact, after Pepetua's letter, Joseph Kabui [Premier of the Province] spoke to Don Carruthers [BCL chairman] and said "I hear you knocked back that request for 10 billion". Don said "Yes, we did. It was outrageous" And Joseph said "Well, there must be some figure that the company would consider for compensation. How about 5 million?" Now the difference between 10 billion and 5 million is like chalk and cheese. Don told Kabui that it was ridiculous to be talking of such figures. Even then, if we had got everybody together to try to get the bottom of it all, it might have helped. It may not have, but it might have.

This is the problem we had. Everybody who made demands on us - Momis, Kabui, Serero and a couple of others - they weren't the recognised body representing the landowners. They were some offshoot. And we were advised by even Kabui at that stage that they were not the main players and we should ignore them. So we did, but this was the wrong thing to do. When it reached the stage of blasting the first power pylon, we flew from Melbourne to hold a meeting with the [PNG] Prime Minister because we thought it was so serious. We needed to express our concern and to insist that a delegation from the Parliament goes to Bougainville and talks to them. We told Namaliu that this was serious and we've got to get dialogue going; he agreed this was a good idea. But it was just before Christmas, and he obviously thought it was not a good idea to hurry into action before Christmas, so he did nothing. A month later things got infinitely worse.

So I think every time something happened, we should have sat down and talked. Even up to the time they stole the explosives and blew down the power pole and burnt the director's cottage, I don't think the situation was beyond recovery. I think all the rebels were doing at that stage was demonstrating their frustration and saying "Listen to us". But what the company did and the government did was to take a Western attitude that these people were breaking the law and they have to be taken in hand. When the first pylon was exploded, the company should have shut down and started talks. We did not do that. What we did was to show them how good we were from an engineering point of view by getting the pole up again and power on in about 16 hours. Then they blew the next one down. Looking back, that was a ridiculous thing to do. And we were all guilty of this; not just one executive. We were mainly interested in



keeping things going and normal. It was as though there were two parts of the company; one responsible for keeping operations going, and one responsible for communicating with the community and the government.

The central government was hopeless throughout the whole affair. They did virtually nothing. Of course, when the whole thing blew up, they had to find a scapegoat and who better to blame than the company? The whole country ended up blaming Bougainville Copper for the situation, even the other mining operations - Porgira, Ok Tedi, you name it. The government was happy to say that the Bougainville Crisis was all our fault. Somare, and Chan, with whom we had had very good relationships over the years, blamed us almost entirely for the trouble. They refused to accept any of the responsibility for themselves. Namaliu was PM when the mine closed, he was kicked out and Wingti came in and he achieved nothing and then Chan came in. Chan's opening remarks to the parliament were that he was going to fix the Bougainville situation during his term. He attempted to do this, but became frustrated by the difficulties he struck trying to get the [Bougainvillean] people to agree to anything. So he escalated the armed conflict, and reintroduced sanctions on imports. He also organised the 'Sandline' mercenaries to clean up the situation and this was a disaster. Somare did try to help, even though he was no longer the PM. He flew into the rebel held area at a time when the rebels had captured some army personnel in retaliation for army killings and the Bougainvilleans were pretty upset about it. His aim was to get them to agree to terms for releasing the army people; he came away empty handed.

Lafitte was Father Momis' speech writer. He wrote the 'Bougainville Initiative' for Momis and that started the whole mess. He would not have been interested in talking to you Graeme, because he would not be interested in getting to the truth in relation to Bougainville. I think it is interesting that he did not return your calls. He's bad news; I don't know what his agenda is and why he is so biased<sup>143</sup>.

There were two areas of environmental damage, which everybody would have preferred not to have happened. The construction of the road on the east coast,

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<sup>143</sup> This remark was in response to a question from the interviewer concerning the activities of Gabriel Lafitte. Over the years, Lafitte had written several scathing attacks on the mine and its management, and was involved in the Bougainville rebellion through his association with Fr. Momis. The researcher was anxious to interview Lafitte in order to obtain an alternative perspective, but all attempts of contact were ignored. Refer to Chapter 8 and Appendix K.

which was a massive undertaking and a great engineering triumph, required the sidecasting of huge tonnages of material which inevitably found its way into the Pinei River which ran to the coast. That was unavoidable, and it was unfortunate because a lot of people relied on the fish in that river. We paid them compensation, but money does not really compensate for those things. Of course, after the sidecasting was complete and the road was working, the vegetation took over and the river returned to normal; so it only lasted a few years. But it was a real eyesore to start with.

The real damage was the disposal of tailings into Empress Augusta Bay on the other side of the Crown Prince Range. Again, this was an eyesore, and it led us to build the pipeline. That was being done when the rebellion started. Again in retrospect, we should have started the pipeline earlier. Bougainville is very steep on the east coast, and on the west coast it flattens out from the range over 30 or 40 kilometres. Because it is so flat, it is very swampy and thus uninhabitable. When we took out the mining lease we had an area which was maybe 200-300 metres wide and it was our objective to keep the tailings within that area. But that meant that there was quite a build up of material because of the gradual fall and so the river moved out over a large area. The solids then killed any vegetation that was there. This was not a problem because there were no gardens there because of the swamps, but a factor we did not know at the beginning was it prevented communication between the two sides of the river. People used to walk across the river in the course of their activities which was difficult enough when it was just a river, but once it became a swamp full of dirty mud it was impassable. This was an unforeseen difficulty.

It is hard to say if we could have handled [the disposal of tailings] differently. The reason the government agreed to us putting the material in the river to take it out to sea was that conventional tailings dams could not be built. There were no natural structures there to support a dam because it was so flat and swampy. It could have been done by building up walls around an area and filling it; that is satisfactory because the water can be used again by pumping it back to the concentrator. But because of the tonnage we were treating, we would have had to either build that over an extremely large area (kilometres in distance), or build it up very high. The large area option would have damaged a huge amount of land. If we had a small area high wall dam, because of the high rainfall it would never have dried out properly and because of the frequent earth tremors, the whole thing may have collapsed. If that happened, there would be this enormous tonnage of material spreading uncontrolled over a vast area probably

killing people. It was too dangerous to have dams. We took advice that 80% of the tailings would flow to the sea, but that did not happen; hence the very large build up and the advent of the pipeline. It was certainly an unsightly mess, there is no question of that. In terms of the area affected compared with the island, it was very small. The PNG government made no environmental demands on the company at all. All such initiatives were taken by the company. Port Moresby did not care what happened to the island so long as the government got the money.

### **INTERVIEW THREE**

Location: Brisbane, Australia.

Duration: Various sessions over a 2 day period.

This respondent was a senior manager for CRA/BCL on Bougainville for most of the mine's life. Due to the extended period of his tenure, he was an integral figure in virtually every phase of the Panguna operation. His long involvement with, and affection for, the Bougainvillean people provides an intimate understanding of their customs, and empathy with their perspectives of the mine and its impact on their lives.

#### **Interview Transcript**

I think it is appropriate to recognise that the human relations aspect of the Bougainville operation was by far the most significant single side of management responsibilities, because of its social limitations and because it was an offshore operation. By human relations, I don't mean just the workforce, I mean the entire population of the island. It was always a very significant part of the management goal.

The digging of the dirt and the shovelling of concentrate was fairly simple. You can go and hire many characters and good engineers who are good at that sort of thing. And they are essential. You can leave them alone to do their job. But from a management point of view, you must concentrate on the community, the political, the workforce and those types of aspects. I would never try to tell anybody how to drive a ... haul truck; but I could find someone who did know. You, as a researcher, are really doing a human relations or human resources study in taking on the management of an operation such as Bougainville.

The environmental impact was not all that bad. Visually, it could be construed as being bad because there was a lot of [material] poured down into that swamp

area. You can't grind thousands of tons of dirt a day without leaving a bit of rubble, but there was no toxic environmental involvement as you do have in other operations such as cyanide in gold processing and that sort of thing. You could say it was good, clean dirt. But it was dirt, and it was ugly and it was different, and it did impact on some Bougainvilleans.

I always thought that the problem that we were unable to address satisfactorily was the fact that of all the money we were paying out in compensation, the poor [people] that were really hurt did not get the lion's share of it. And that was a factor of where the mine was, how the operation needed to be set up, the population structure, and so forth. It's no good blaming anybody because that's the way it was. But, if you look at the people who were getting their back yard dug up, particularly the Guava people, to them we were putting [an extremely] big hole in their land; they were obviously a bit put out about that. We were paying compensation to all these people down the river who were living in the swampy areas because we were filling in the swamps with the tailings. And if you look at the areas, the problem had always been that compensation for use of land was calculated on area and it never took recognition of the fact that the areas had different productivity and that different productivity related to different populations. Therefore we were taking the Panguna area (the Special Mining Lease) and were dividing it amongst thousands of people. We were taking a much bigger area for tailings and multiplying it by the same factor per hectare and dividing it by a tenth of the population because that area would not support a subsistence economy, because it was a swamp. Therefore, you have immediately created an inequity and the real problem comes with relativity; it is not how much, or an appreciation of a certain figure, but when you see your mate with three trucks and you've only got one, you say "Why him?"

[This approach to compensation] was wrong, I knew it was wrong, and the company knew it was wrong. And we aggressively tried to address that with a distinct lack of satisfaction because nobody could ever digest that as it had been inherited from the initial mining legislation which was antiquated and based on Australian law. The government could never recognise that in a subsistence economy, area and population was a factor that used a different divisor. So we did try to address that in the renegotiations. In the 1980s, we managed to bring in another factor, and that was compensation for the people who were actually affected - as against compensation for people who could get on with their normal lifestyle. The government refused to recognise this problem, and we were never able to get them to address it.

When the agreement was revised in 1974, it was written in that the agreement would be renegotiated - or looked at - every seven years. In 1981, we told the government very loud and clear that [the compensation issue] is a problem which we believe is not being recognised. You ask yourself "What was the [PNG] government?" The government was a few politicians who are not there long enough to understand the issues and a bunch of 'wet behind the ears' advisers who hold senior positions in a developing country. There was no consistency. We did not have the long-term public servant that we have in Australia where you can talk to, say, the Department of Mines and talk to some rational being and expect to be talking to the same person in 12 months time. There were some quite rational beings there and we had good relationships with them but, in broad terms, it was impossible to get those sorts of issues thought about and addressed because they were too hard. From the National Government's point of view, Bougainville was their big 'milch cow' and they did not want to 'rock the boat'. I think the National Government failed to appreciate that the Bougainvilleans were getting [agitated] and the Bougainvilleans seem to get [agitated] in a cycle. That came up in the 1960s and the 1970s; it appears to come and go.

It is not hard to understand why the Bougainvilleans got agitated; until the mine started, they were treated like people from the boondocks. They were virtually ignored, and then the 'big men' from Port Moresby began to arrive, and they never liked Port Moresby. The Bougainvilleans would gladly cut each others' throats based on language differences, but the only thing that combines the Bougainvilleans is their hatred of the 'redskins'. To see the 'redskins' getting most of the money generated by the mine really gave them a reason for hate. But there was nothing they could do about it; they could not attack them because of the ocean between them. But here is the operation which is supplying the 'redskins' with money and creating that injustice, therefore, if we attack that, we are doing our best to rectify that injustice. That was the fundamental behind a lot of Bougainvillean thinking.

Reports that the Bougainvilleans' motivation for destroying the operation was not the mine, the company, or the management, rather they were trying to harm the government and the mine was a tangible target is only half right. It is easy to step into the trap of lumping together the Bougainvilleans; they are very individualistic people. There was not one single motivating force - there were many undercurrents. It depends on your perspective. If you were a Guava villager standing up on a hill looking at somebody digging a [huge] hole in your

land and the fellow on the next hill is getting more compensation than you per capita, that is an inequity. If you were living on the outskirts of the mining area, and you are not participating in any compensation, you look at the man over the back fence and say "He's getting compensation, what about me?" If you are the Provincial Government, you say "We're the local government, so why is Port Moresby getting all this money and we are getting this measly bit of flow on". The attack on the mine, in my mind, was not a completely anti-company exercise. It partly sprang from the festering, the 'Bougainville Initiative', and Father Momis convincing the people that they were going to be in for the big bonanza. Momis then went back to Port Moresby and did nothing.

Father Momis did not even answer [our] letter when [we] said "... let's do something about this problem" [Quodling's letter in response to the Bougainville Initiative]. I said to Momis "Let's get the [problem] fixed. We know that there are problems and I'm quite happy to address them. But I'm not going to address them by tying some impractical solution that is not going to be approved by the government or the company".

Then you've got other people there who are looking around and they are frustrated for some reason. They see all the tailings in the river and someone has got cancer and they ask "What's causing it?". The answer is "That bloody mine, she did not have cancer last year". It got to the point where anything that changed was blamed on the mine.

Look, overall, the people were upset with the National Government rather than the mine specifically. The mine was really seen as a benefactor, but not by all. Gone were the days when everyone clapped with glee because the mine was there, but most people valued its input to the island. In fairness however, you have to look at it from the National Government's perspective. Here is one of the provinces that is relatively rich because the mine is paying fees, royalties, and so on.

The costs and taxes imposed by Port Moresby were hefty, but broadly in line with imposts paid by most mines around the world. I think it is fair to say that the commissions which were negotiated in 1967 by the Australian Administration were done in good faith as they saw it at the time because they were looking towards a later PNG independence date and getting the mine in operation by giving CRA incentives to commit. It was not really clear as to whether Panguna was a viable operation at that stage. As it turned out, it was a

very profitable operation for the first couple of years. But it is unfair to say that the mine took advantage of a naive, pre-independence administration or to say that a pre-independence administration gave too much away. In the context of how it was seen at the time, the agreement was realistic from all viewpoints.

One of the problems was the way the agreement worked out with that tax holiday - we came in on the first couple years of self-government with a huge income and no tax liability. Now in hindsight, that was unfortunate timing because the copper price went through the roof. If the copper price had stayed at around what was used in the feasibility study, we would have had a nice, steady income, a few tax free years, [could have] paid back the loans, start paying tax and everyone is happy. But in fact the mine started, and the newly self-governing country was inundated by people saying the tax holiday was unfair. And, it can be seen that it was unfair given the unforeseen circumstances. But those who accused the mine of deliberate rake-offs were not right.

The National Government commissioned international advisers on the tax issue, and they were tarred with the one brush that said multinational miners are liars and cheats. But that is not so. The Government was being advised about the 1974 Agreement by academics out of Sussex, and academics have a pretty blinkered view. So do missionaries. These two are about the worst enemies of any good progressive mining operation. In that, I believe there was an element of over-correction in the 1974 agreement and the resource tax was a bit too high. But of course, the National Government kept the lion's share of this impost.

I keep [claiming] that there was no single issue in the mine's closure. One of the other problems was that there was a strong Catholic community. The fatherhood was largely coming out of the U.S., and one particular priest was very anti-mining. He was brought up in the coal mining areas of Pennsylvania and he had a chip on his shoulder like a log. He preached to the people that what was in the land belongs to the people. Against that, the government was based on Australian principles that what's on the land belongs to the people and what's in the land belongs to the government. So the Bougainvilleans got a contradiction of advice - you've got Jesus on one side telling the poor [people] that it's their copper and someone is [stealing] it, and the government on the other side saying the copper is ours. I must point out that the clergy were terribly influential on Bougainville and the Church was never happy about the mine. We tried hard with the Church, we really did. It was difficult. The Church was entitled to give

the people the benefits of their view, and most of the priests believed they were doing their best for their flock.

But you look at these poor [Bougainvilleans] and what they've been through. They've had Japanese invasion, they've had Australian administration, they've been up and down for 100 years. These people are smart and they refused to accept all the people coming and going and pushing and shoving, and then they got hit with the mine as well. The mine just added to the confusion. Look, the Bougainvilleans grievances were genuine, but they had too many people telling them different things.

You have got to understand also the value of land to these people. Their whole culture hinges around their land. We can go down the street and buy land; it is not so on Bougainville. Nobody has the right to give land away. That's another factor which came into the equation. The Bougainvillean priorities and thought processes were directed by what they saw as being a great injustice and a change of lifestyle. So, even if the hole in their backyard was not as big as it was, and if the river was not polluted, trouble was always a possibility.

There was no doubt of speculation in my mind that relativity of benefit was insufficient for those particular people who had their land disturbed. I tried very hard to balance that, but it was difficult because if you just revalue it, the next fellow is there and the relativity remains fairly constant. We were slowly working on changing the relativity; it was a slow process and it wasn't able to move fast enough to meet the aspirations of the people. And I doubt if the compensation would have ever met those aspirations because it is difficult in any society if you've got 100 and they want 200 (whether it's cabbages or gold coins). The answer did not lie in absolute amounts, but in relativities.

As our ability to mine lower grade ore economically increased, the size of the ore body increased automatically. [As a result], we built a sorting plant, we commissioned an in-pit conveyor system, and we increased the capacity of some trucks. The disposal pipeline was started also because that was becoming a chafing factor in that while the river was carrying the tailings away, the silt was expanding further out and building up. The river did not carry as much tailings out to sea as was initially proposed. We were also looking at using the tailings outflow for hydro power. All these improvements allowed us to make the original pit bigger. Not by large dimensions in diameter, but because of the nature of the animal a fairly small change in the diameter means a large volume



of material. So we could mine economically those grades of material that had previously been classified as waste. So the 900 million tons original estimate was extended. Bearing in mind that the price was all over the place, so what is economic anyhow? This is another problem. As long as the company stayed within the lower quartile of world mining costs, it could come out in front.

Now, the decision to expand the pit resulted in an increased level of activity which was apparent to the people looking at the mine. This led to a further impression that [the company] was are not going to pack up and [leave] like it said it would, it was digging more holes in our land. And they were absolutely correct. I have no idea how much that was an influence in their discontent, but I believe it was definitely a contributing factor. So the new technology, the pipeline and the growing pit were seen as a conscious decision to go on rather than to pack up. I'm not saying that people thought we were going to pack up; I'm not saying that anyone sat down and said 900 million tons was the estimate and they've got 850 million so they are off next week; I don't think that ever happened. But in the eyes of some, *and only some*, it was getting bigger. Here's these [foreigners] we have been putting up with for 20 years and now they are making the mine bigger; they are going to swallow us up. This increase in the complex commenced about 1986–87.

The ecological concerns are difficult to judge. There was no scientific basis for many of the claims about dying bats or deteriorating medical conditions of the locals, but these issues were real and the mine was there. We were dealing with people where there is a cross-section, particularly with the influence of the cargo cult, who survive on rumour, gossip and innuendo, and these things tended to get out of hand. The issues would not stand up to analysis, but they were a substantial force to try and deal with.

So, we had the expansion going on in 1986-87, there was an election coming up in 1987, and Lafitte was stirring the pot with Father Momis. [Momis] was standing for government and the Bougainville issue was a real vote winner. No doubt about it. At the same time, the leadership, or the 'big-man' philosophy in the villages was changing. The young [men] were challenging the older ones, particularly their previous decisions about the mine. One aspect is that there is no structural long-term leadership, the other problem was that there was a social change that was breaking down the traditional leadership of the society. Further, the cash economy was growing, there were differing ideas about land usage, and there was an explosion in mobility (once if you wanted to go to the coast,

you walked; now you hop into your brand new Nissan and you're there in half an hour). Education was improving but there were not enough facilities for people to move up into senior education, so there was a partially educated, younger generation who questioned traditional values. They had a totally different perspective on life, but the elders were still administering the 'cookie-jar' and they resented this. It was rumoured that some of the elders were murdered when they resisted take-overs by the young.

There was a rapidly increasing population because health care stopped nature killing them off and people kept migrating from mainland PNG. So you had this increasing number of young mobile people in a society that had a limit on the amount it could sustain with an essentially subsistence economy.

All these things led to the unrest. You cannot say that the mine was not responsible for the whole catastrophe on Bougainville because if there was no mine, there would have been no argument about who got what. Before the mine people were happy as they were because they did not know any different. The mine is undoubtedly the cause, but there was nothing that could have been done a lot differently other than not open the mine. Once the decision was made to start the mine, the die was cast. But it could have been a lot better if PNG had done more for the Bougainvillean people.

Another point is, it may have been better if the company could have taken a bigger role in looking after the Bougainville people. But the government did not want a little elite. They did not want the situation which happened in Zambia where a mine set up and looked after the locals but everybody outside the lease got few benefits at all. So the company was under great pressure not to increase the standard of our housing or facilities. Maybe in hindsight we should have said to the government "bugger you, we are going to look after these people anyhow". It was not a cost factor. The administration was trying to help the whole country with the proceeds of the mine, but the Bougainvilleans could not get away from the fact that they were being neglected and PNG was being developed with their money.

The company tried to point out to the national government that these issues needed to be addressed. I have to rely on my memory here, as most of the documents were lost during the evacuation. Twice we went to the government. The first time (about 1981) we spoke of the problems which the locals perceived - among them was definitely the relativities issue. More meetings in 1988

showed some promise. I drafted a letter to the national government stating the issues we wanted to address; principal among them was the aspirations of the Bougainvilleans. I devised an action plan for greater local benefits, but it fell on deaf ears because when Father Momis got back into parliament did not appear to be interested in his electorate. But I cannot say that he neglected the people; I think he was sincere in his aim to help all PNG.

Regardless of the outcomes of the present peace talks, Bougainville will remain separate from PNG and divided within itself. For thousands of years, they have been a separate and distinct race. On Bougainville before the mine, people who lived in one place did not know the people who lived in the next place. 20 kilometres away, the people have completely different languages, processes for life, and cultures. It is only in the last 50 years that they have been welded to this massive nation called PNG. To force Bougainvillians to become married to PNG [would eventually cause] animosity. Sooner or later the Bougainvilleans were going to tell PNG that they did not want to be part of that country. I believe the mine sped that process up. Before the mine, PNG was 'out of site and out of mind', but they got a bit of money from the PNG government.

It is hard to say exactly how the mine accelerated the separatist move, but perhaps it gave them concrete issues to want to be separate. They saw issues like the land being changed, money flowing to the national government with only a small return to the island, and the changing of their culture. The cultural changes were broad; they saw people going off to work in the mine, and they saw people earning massive incomes compared to previous village life. Originally, they did not need an income.

I was mentioning earlier the inevitability of the revolt. Colin Filer argued in one paper that deals made with one generation of landowners would be repudiated by the next generation regardless of the nature of the deal that is originally negotiated. Furthermore, the authority of the leaders in these communities may very well be undermined by the very fact that they were party to some previous agreement. This is only his opinion, but I think his opinion is relevant. What he wrote is not a great discovery; no matter what the culture, the new generation wants to change things established by the old generation.

One thing I would like to add is that the Bougainvilleans were not part of the initial decision to open that mine. They were represented insofar as they had a member in the national government in Paul Lapun, but the landowner himself

was not there in the traditional Melanesian way of sitting there chewing the Betel nut and talking it over for 25 days plus until finally consensus came out. Someone else - outside their society - said "you people can come into Bougainville and dig up the land".

Ken Phillips, the original geologist, was ahead of his time. He was more than a chipper of rocks; he was a very good social thinker and he made the point at the time that some Bougainvilleans were happy about the prospect of the mine and some were not. He saw the problem that the decision to mine was not being made in the Melanesian way of 'yes we all agree that this is a great thing'. And it could not be that way because we did not know what the mine was going to be; this is one of the great difficulties in exploration. In the past, companies have opened mines by making stupid promises and walk out when it fails; this upsets everybody. We did not do this – we were honest and told them we did not really know what the mine would be like. But then people said "if you don't know, who the hell does know". Our only reply could be "we don't know what's there yet". Therefore you have the landowners whose [land] was going to be dug up and a company who did not know how much it needed to dig.

The hospital when we went there had a dirt floor. It was a shed. The surgeon operated on a wooden bench. There was a bowl of body parts (spleens, I think) sitting in the theatre. Bougainville was not at the top of the list in the Administration. In fairness, you have to ask yourself whether the Australian Administration did a good job. I personally think that, under the circumstances with which they were presented, some of those early Australians did a marvellous job in developing a very mixed and divided society. Most of them were good men who had the interests of the Bougainvilleans (and PNG as a whole) at heart. The people on the ground had difficulties being heard in Canberra, however. The Australian government was remote from the realities of what was happening. You certainly cannot blame the Australian administration directly for the problems. The mining legislation was antiquated but they had to live with it; they tried to have it changed because they saw problems in transporting it as it was and that a different approach was needed in PNG. But you are looking at a very few number of people with a big range of responsibilities and a very small budget trying to be heard in Canberra.

The best summary of the Bougainvillean outlook was given me by a local. He said "I've figured out you Westerners. You are born, you have a couple of years and go off to school for 15 years, then you go into the workforce all your

life, then you spend the last years of your life sitting under a tree doing nothing. Yet, we are born and all our life we sit under a tree and do nothing, and you have the bloody hide to call yourselves civilised”.

What did the company not do right? Probably the biggest issue was a failure to recognise the inevitability of what happened. Had we have seen this, we might have done things a bit better. We had 20 years of reasonable stability, and did not see the importance of the few people that occasionally threw stones at us. We missed the fact that the younger people would not accept what the older generation had agreed to. There is probably a timing factor as well. There was a change in the management. I had been there right through, and a few other [long serving managers] were being repatriated. There was no longer someone who they could talk to, who they knew. This is not a criticism of those who followed me. Maybe we should have prepared the locals more for these company changes.

The inevitability of the revolt was not seen, but what we would have done had we have recognised it, I'm not too sure. There was an undercurrent of new generation upsurge. It was seen by some that the mine was expanding rather than contracting. The animosity between the provincial and the national government was escalating rather than diminishing. With all these factors running around, those who wanted change saw this as an opportunity to get in there and make their presence felt.

I think you need to question the Bougainvillean need for development. They were poor by our standards, but they were not deprived. The mine brought them benefits which a lot of them enjoyed, but they really did not need them. PNG wanted a commercial economy more than these islanders. Their lives had gone on a long time without materialism; perhaps they were better off without it. They were not living in poverty like many places in Africa where mines were developed. They were not poor. Their health, food and lifestyle was OK before the mine. The friction between the tribes was there, but seldom manifested itself because they did not have the facility or mobility to wage war on each other or anybody else. The infrastructure changed this; they could get to one another more easily and fighting became more prevalent. This was not a big problem though, because their sense of being Bougainvillean was increasing. They were developing a common identity amongst themselves. Many Buins for example, continued to dislike the Bukas, Guavans etc., and vice versa, but they are all united in a greater dislike for the 'redskins'. Their new mobility gave them

exposure to other tribes and they did not like each other, but they also gained exposure to outsiders and they liked them less.

The mine attracted to Bougainville a large number of 'redskins', a lot of whom were not employable. A man would come from the PNG highlands, get a job at the mine and send his money home. Then 20 more would arrive in search of money, or simply a radio and a wristwatch. These characters settled in satellite communities and the Bougainvilleans did not like them. The Bougainvilleans are generally placid, but when they are stirred up they are pretty fierce, and they would attack these Niuginians; the highlanders were scared of them. There were peaks of discontent and nobody addressed that problem. Continually, management would ask the government "... why don't you stop the flow of all these unemployables across the sea because they are disrupting everybody. They are making the communities unhappy. They are not getting jobs, so they are unhappy as well". But the government in its wisdom said it could not limit the movement of its citizens. Again, the mine was responsible. If there was no mine, these [people] would not have been coming to Bougainville.

Now, it is OK to say that each Bougainvillean group did not like each other, but remember that the PNG tribes who came to the island also hated each other. This added another dimension.

As soon as the Bougainvillean Initiative letter came out, it generated a problem. It generated in the minds of the people aspirations of all these goodies coming to them. I recognised that there had to be a venue to get this opened up, and the venue was the seven year review in 1988. I was not directly involved in the management by then, but I did some work on the side and I wrote a paper for Bob Cornelius recommending the way I thought BCL should be handling the discussions. These recommendations hinged around having greater involvement of the local people and greater benefits for them from the mine's presence. Now that never really got off the ground. Whether we could have got that going, I could not comment. I am pretty clear as to what we should have done, however.

## **INTERVIEW FOUR**

Location: Brisbane, Australia.

Duration: Comments offered during the course of interview three.

This brief contribution was made by an Australian who was raised on Bougainville. Her Bougainvillean husband held a senior position in the Panguna mine. Due to her immersion in the Bougainvillean culture, her participation in this research was arranged voluntarily by one of the above respondents, as he believed she could bring a non-management perspective to the study.

### **Interview Transcript**

It seems to me the key thing is that the mine may have been able to do things differently but what happened would have happened sooner or later. It may have happened sooner if the mine had not been so well managed, it may have happened later if they had done an even better job. Ultimately, the mine's closure was inevitable. Having grown up on Bougainville, I could see that the people wanted a change. The mine did not help; it was something else to aggravate the situation. They had this mine and all the money was going over to the PNG government and they were not getting much back.

Other issues were seen as the changes to the land. There were people whose soul was tied to the land and then all of a sudden there was another generation who does not have any tie to the land because there is no land to be tied to - that completely changed the culture. In all these issues the mine contributed to parts of them, but what they did to ease the pain was to attack the mine. Eventually, the situation would have blown up anyway. It may have taken another 150 years, or 50 years, but sooner or later, I believe that the Bougainvilleans want to be a separate group of people. They do not see themselves a Papua New Guineans, they consider themselves more Solomon Islanders.