Maersk Drilling in Angola

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Case: Maersk Drilling in Angola

Introduction

This case centers on the efforts of Maersk Drilling to apply its CSR policy to its business operations in Angola, the second largest oil producer on the African continent. The case explores 1) the organizational and strategic integration of CSR initiatives; 2) how strategic notions of CSR (as a mode of value creation) are applied in practice; 3) how strategy relates to compliance in the development of CSR; 4) how the CSR strategy of a multinational company is (or can be) adapted to the local conditions of a developing country. Maersk Drilling's approach to CSR and the strategic mindset that drives its efforts to be considered a good corporate citizen in Angola, have to be considered in lieu of it being a business unit within a multinational conglomerate: the A.P. Moller – Maersk Group. Therefore, we will start out by presenting the organizational background for CSR in Maersk Drilling and proceed from there. The case reflects Maersk Drilling's strategic outlook, market situation and organization as of late 2013/early 2014.

A.P. Moller – Maersk: background, the group level and business units

What would later come to be known as the Maersk Group was founded in 1904 by Arnold Peter Møller and his father Captain Peter Mærsk Møller. A.P. Moller – Maersk is a world-wide conglomerate with a core focus on shipping and energy: oil and gas. The four core business units are Maersk Line (the world's largest container shipping company), APM Terminals, Maersk Oil and Maersk Drilling. The total revenue in 2013 was USD 47, 386 million. The company employs roughly 89,000 people in 135 countries[1]. It is the largest company in Denmark based on total revenue and #157 on the Forbes Global 500 (list of 2013).

The founder of the company coined a phrase that was to become a cultural cornerstone and the *sine qua non* of how Maersk conducts its business. He said: "No loss shall hit us, which could be avoided with constant care". This core value implies that in the Maersk Group they take care of today while actively preparing for tomorrow. Under the strong and successful leadership of Mærsk Mc-Kinney-Møller, A.P. Møller's son, who served as CEO from 1965-1993 and was a leading figure in the industry for more than half a century, 'constant care'['rettidig omhu']

[1] Source: A.P. Moller-Maersk Group: *Sustainability Report 2013*. Available from: http://www.maersk.com/Sustainability/Documents/Maersk_Sustainability_Report_2013.pdf

became the answer to all matters pertaining to proper and professional conduct, business ethics and CSR. The company, which was sometimes ironically referred to as the great ‘solar eclipse’ of Danish industry, became a stalwart of cultural conservatism centered on this notion with its allusions to discipline, determination and high performance. It was for many years known as an outstanding but also closed and intransparent company that cared little about communicating itself to its surroundings – and saw little interest in engaging with what was perceived as passing management fashions.

However, in the new millennium this mindset gradually changed toward a more open approach to values, communication and corporate citizenship. Apart from *Constant care*, the core values of the Maersk Group are: *Humbleness*: listen, learn, share, give space to others; *Uprightness:* our word is our bond; *Our name*: the sum of our values, passionately striving higher; *Our employees*: the right environment for the right people. These values are still held in high regard, but top management has come to the realization that they may no longer suffice when it comes to attracting new employees and living up to stakeholder expectations in general. CSR has been adopted as a means to translate the values so that they are more easily comprehended by outsiders.

Sustainability in Maersk

In 2008, one of the leading CSR managers from Novo Nordisk, a Danish pharmaceuticals company known as a world-wide leader in sustainability, was headhunted to the Maersk Group, where her first task was to set up a group sustainability unit. This would soon be followed by the establishment of separate sustainability units in each of the four main business units. Since 2008, the group sustainability unit has been engaged in a variety of efforts to further the cause of responsibility internally and in relation to stakeholders. Among other accomplishments, Maersk has made fast progress in sustainability reporting. It published its first report, along with the first group sustainability strategy, in 2010 and has since won several awards for excellence in non-financial reporting. It is now considered one of the national – and international – leaders in the field, alongside established frontrunners such as Novo Nordisk and Novozymes. In a 2013 survey by KPMG, Maersk was singled out as one of 10 companies from the Global Fortune 250 to score more than 90 points out of 100 on CSR reporting quality[2]. Maersk signed up to the UN Global Compact in 2009, and in 2011 became one of approximately 50 members of UN Global Compact LEAD: a platform designed to challenge highly engaged companies to experiment, innovate and share knowledge and learning – with the overall aim of leading new efforts to raise sustainability performance.

Sustainability strategies

Maersk Group embarked on its first sustainability strategy in 2010. The overall objective was to "integrate sustainability into business processes and make it a competitive advantage" and to achieve "full business integration by 2013". In order to accomplish this, business units had to implement group standards, and sustainability had to be integrated into systems and metrics of performance management[3]. Group provides the overall framework, standards and metrics such as KPIs used to govern accountability. This does, however, leave considerable space for business units to self-govern and for their sustainability units to make choices and think and act strategically. Although there is an element of internal compliance in this, business units are given considerable freedom to use CSR/sustainability as a lever to create or support new business opportunities. This is in line with the overall corporate strategy of the Maersk Group. In 2012, Nils Smedegaard Andersen, Group CEO since 2007, announced a shift in strategic direction from a more integrated mode of organization toward a more diversified form. The four main business areas were defined as the pillars on which the future success of the group rests, and the business units were given greater autonomy in order to better serve their customers and meet demands in the market.

Group Sustainability does, however, determine the overall direction and goals to be pursued, and these efforts are supported by a Sustainability Council and a "Sustainability integration dashboard": a management system making use of 25 measures of integration[4]. The direction is growth and the goals are about gaining competitive advantage through responsibility. While the first sustainability strategy was concluded in 2013, a new strategy was adopted in 2014

[2] Source: *The KPMG Survey of Corporate Responsibility Reporting 2013*. Downloaded from: http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013.pdf
[3] Source: http://www.maersk.com/Sustainability/OurApproach/Pages/OurApproach.aspx
[4] Source: A.P. Moller-Maersk Group: *Sustainability Report 2013*.

and will run until 2018. The vision is to unlock growth for society and Maersk Group by focusing on three key priority areas: *enabling trade*, *investing in education* and *energy efficiency*.

Maersk Drilling and sustainability

The history of Maersk Drilling (hereafter MD) began in 1972, when Maersk Storm Drilling and Atlantic Pacific Corporation merged. MD supports global oil and gas production by providing drilling services to oil companies around the world. Its customers include major oil companies such as BP, Chevron and Statoil along with national and independent oil companies. It has had operations in the North Sea as well as in the Middle East, South East Asia, Australia, the Mediterranean, the Gulf of Mexico and West Africa. In 2013, its revenue was USD 1.972 million with annual profits of USD 528 million. By the end of 2013, it employed 4,029 people, of which approximately 80% worked offshore. It operates a fleet of 26 technologically advanced drilling units. The company is headquartered in Copenhagen and has offices in Angola, Azerbaijan, Brazil, Brunei, Cameroon, Malaysia, Norway, Singapore, UK and USA – reflecting its current business activities and global reach. It is the 9th largest drilling contractor in the world.

The company celebrated its anniversary in 2012 under the heading "40 years of moving boundaries", suggesting a devotion to technology, safety and innovative solutions enabling the company to do business responsibly and under the most extreme conditions. As indicated, the company developed its first CSR strategy and published its first sustainability report in 2009. CSR is formally governed by the CEO and a steering committee. The steering committee consists of the senior management team together with the head of CSR. CSR is, on a daily basis, acted out in cooperation between the CSR function, CSR representatives and relevant managers from each department in each location around the world[5].

Integrating sustainability

The vision of MD is “to move boundaries within offshore drilling” and this is to be accomplished through a strong focus on technology, safety and innovative solutions. Responsibility is seen as being integral to this endeavor. While the company is pursuing an accelerated growth strategy aiming to double its fleet and develop and grow its positions in the deepwater and harsh environments by 2018, such efforts are seen to require attentiveness to sustainability issues,

[5] See Maersk Drilling Sustainability Report 2012, p. 14.

particularly in relation to safety and environmental performance and to local content. Hence, the company has, in alignment with the Group strategy (2010-13), explicitly been aiming for "the business integration of sustainability". Due to the high risk nature of its business, health, safety and environment (HSE) has been a high priority throughout the company's existence, but the increasing focus on CSR suggests that a more proactive mindset about such matters has begun to prevail. While HSE is aiming to secure effective compliance with extant rules and regulations wherever the company operates, CSR is also about changing mindsets in the company and coming up with new ways of approaching responsibility issues and creating strategic opportunities in order to, ultimately, strengthen the company's competitiveness and financial performance[6].

While the shared value mindset has been widely adopted in the Maersk Group, the head of CSR in MD also strongly emphasized the significance of the core values, and that there is a moral imperative involved in determining the company's course of action. The business case is not the only valid justification for engaging in CSR. Acknowledging the mindset of the industry they are in, he expressed concern about the widespread 'cowboy attitude' – 'go in, get the oil, and leave' – and added that MD wants to be considered as the frontrunner in the industry when it comes to sustainable business practices, thereby hoping to push the industry to positively impact the societies in which they operate.

Maersk Drilling in Angola

A large proportion of the Maersk Group's investments are targeting emerging economies and global trade with emerging economies. About 40% of its employees and 50% of its revenues/profits come from emerging markets[7]. In 2012, the top management of the Maersk Group launched "M15": an accelerated growth strategy for profitable emerging or growing markets lending further support to this development. Angola has been chosen as one of the (15) countries underpinning this strategy, and this entails a commitment to large-scale investments and long-term engagement. Thus, no less than seven Maersk business units, including Maersk Line, Maersk Oil and APM Terminals, have activities in Angola. Angola has considerable

[6] Source: Interview with Maersk Drilling Head of CSR
[7] Source: http://borsen.dk/nyheder/virksomheder/artikel/1/253178/smedegaard_ansigt_til_ansigt_med_investorerne.html?hl=TeZyc2s7QW5nb2xh#ixzz2cV5NhB7O

business potential for MD. At present, only Brazil, South Korea and USA have more oil rigs employed, and within a few years Angola is expected to be the largest oil producer in Sub-Saharan Africa – surpassing Nigeria, which was the largest producer as of 2012. In 2011, 22 oil rigs were in operation in Angolan waters and that was an increase of 11 rigs – a doubling – compared to the year before. Angola, a member of OPEC (Organization of the Petroleum Exporting Countries) since 2007, produced 1,704,000 barrels of crude oil per day in 2012, of which 1,663,000 barrels were exported[8].

Drilling off the coast of Angola is considered particularly promising as the deep waters resemble the pre-salt formations in Brazil, which are estimated to contain around 50 billion barrels of oil. The oil reserves in the 41 oil blocks off the Angolan coast are divided into shallow waters, deep waters and ultra-deep waters. MD has a particular focus on growth within the ultra-harsh environment jack-up segment and the ultra-deepwater floaters[9]. West Africa, including Angola, is believed to have one of the largest ultra-deepwater oil reserves in the world, and it is one of MD's main areas of interest when employing its growing fleet. "We consider deepwater drilling to be the most compelling growth story in the offshore space, and (…) we have a strong competitive position to take part in this growth due to our high skilled employees and state-of-the-art equipment," said Claus V. Hemmingsen, CEO of MD and member of the executive board of the Maersk Group[10]. Of course, efforts to capitalize on strategic opportunities in this particular area of expertize calls for strict safety and responsibility measures. The environmental risks involved in deepwater drilling have become all too apparent after the Deepwater Horizon disaster in the Mexican Gulf in 2010. Moreover, governments have inserted local content requirements into the governmental and regulatory frameworks and this is having an impact on the demands and expectations of the formal local stakeholders that govern natural resource development.

Angola: political, economic and social conditions in brief

Angola is located on the West African coast with Zambia to the east, Namibia to the south and the Democratic Republic of Congo to the North. Angola gained independence from Portugal in

[8] Source: http://www.opec.org/opec_web/en/about_us/147.htm
[9] Source: Maersk Drilling: *Sustainability Report 2012*, p. 7.
[10] Source: http://www.maerskpress.com/Latest%20News/maersk-drilling-has-hit-the-ground-running-in-angola/s/0634323e-6574-448c-98ac-78e9531adf10

1975. This was followed by 27 years of civil war that ended in 2002. The official language is still Portuguese, but languages such as Bantu and other African languages are also common amongst people outside the big cities. The system of government is a presidential system where the president serves as both head of state and head of government. This means that the President has executive power, although he is to some extent dependent upon support from the legislature. The political system is a multi-party democracy and the major parties are MPLA (Popular Movement for the Liberation of Angola), UNITA (National Union for the Total Independence of Angola), and FNLA (National Liberation Front of Angola). The President of the Republic is HE Dr. José Eduardo dos Santos from MPLA. He has been leading the country since 1979.

Angola has a population of 20.8 million, of which 3 million live in the capital of Luanda. It is the fifth largest economy in Africa and the third largest in Sub-Saharan Africa. The GDP in 2013 was USD 122 billion and the average income per capita was USD 5,7[11]. The national currency is the Kwanza. Angola experienced steep economic growth in terms of annual percentage increase of GDP in the years 2003-2007. As many other economies around the world, Angola experienced a substantial (20.6%) drop in annual GDP growth following the financial crisis, but after a period of slow growth, the country is back on a positive track. Angola is expected to have positive economic growth in 2013 with a 7.1% increase in GDP and decreasing inflation[12]. The boom in the economy has largely been driven by the oil sector. According to OPEC statistics, oil and related industries account for roughly half of Angola's GDP and more than 90% of the country's exports. The dependence on oil leaves the country highly vulnerable to fluctuating market prices. However, with steady growth in production and manufacturing, increasing population sizes and continuous dependence on use of fossil fuels such as oil and gas, nothing seems to indicate that the demand for oil and affiliated products will diminish any time soon.

Angola is still struggling with repercussions from the civil war. Social problems relate to, among other things, lack of infrastructure and governance, poverty and low levels of education and language skills. The number of higher education institutions is increasing, but the quality is decreasing due to a lack of quality control in universities and a severe lack of qualified teaching staff. In the World Economic Forum *Global Competitiveness Report 2014-2015*, the quality of

[11] Source: http://www.opec.org/opec_web/en/about_us/147.htm
[12] Source: http://www.worldbank.org/en/country/angola/overview

the Angolan educational system (and its ability to meet the needs of a competitive economy) is ranked 142 out of 144 countries[13]. None of the top-5 universities in Angola rank among the African top-100. Furthermore, the majority of graduates from Angolan universities are from social sciences and only a small fraction of these have a degree in engineering or other technical disciplines[14]. This lack of graduates with technical skills provides a very low baseline of skills. Accordingly, international companies experience a significant skills gap.

Doing business in Angola

Foreign companies doing business in Angola face a number of challenges. The business environment is considered to be one of the most difficult in the world. It is often difficult to get people and spare parts through immigrations and customs, and this imposes risks of great fines or operational delays at great cost. Angola is a place with slow and heavy bureaucracy, pervasive corruption (it ranks 153 of 177 countries in Transparency International's Corruption Perception Index of 2014), an underdeveloped financial system, expensive goods and comparatively high salaries for those that meet employment requirements[15]. Angola ranks 181 out of 189 countries in the World Bank's *Ease of Doing Business Index* (covering the period from 2010-2014)[16]. The perception is often that it is nearly impossible to set up a company structure following all legal requirements and without corrupt practices.

This perception of a relatively difficult business environment is also supported by MD's own people. One of its rig managers considered Angola as the most difficult place to operate in in West Africa. His experience is that some CSR initiatives already in place, like offering personnel medicine against high blood pressure (a big health issue in the region) or providing health insurance for their entire families (and not merely individual insurance as required by law) are well received[17]. This could call for more CSR activities aimed at creating value from an Angolan point of view. However, MD aimed higher than such HR-related initiatives or philanthropy. It was decided that a concerted effort to comply with local content requirements

[13] Source: http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/
[14] Source: http://www.worldbank.org/en/country/angola/overview
[15] Source: U.S: Department of State (2013): *Investment Climate Statement – Angola*. Downloaded from: http://www.state.gov/e/eb/rls/othr/ics/2013/204590.htm
[16] Source: http://data.worldbank.org/indicator/IC.BUS.EASE.XQ
[17] Source: Interview with Rig Manager, Maersk Drilling.

and even move beyond compliance would be the main initiative in its strategic approach to CSR in Angola.

Local Content requirements

In Angola, as in other African countries, local content policies aim to protect domestic economic, labor and business interests in dealings with, in particular, the oil and gas industry. This is an important part of the post-colonial drive for political and economic independence while also invoking the infant industries argument. The state oil company, Sonangol (Sociedade Nacional de Combustiveis de Angola) is the sole concessionaire for extraction and production of oil in the country. Local content rules broadly aim to promote Angolan employment and ownership of businesses along with Angolan industry, production and services – in order to avoid unfair exploitation. Local content requirements for companies will vary depending on the industry, the setup of the company and the type of business the company is doing. There are for example different local content requirements for oil companies and drilling contractors. The three main local content requirements for drilling contractors is that they need to have a local partner, a work force consisting of at least 70% Angolans (and no more than 30% expats), and to procure from local companies – if the local price is not more than 10% above that of a foreign supplier. Of particular interest here are the rules pertaining to employment. These requirements are referred to as *Angolanization*, and companies are obliged to be in compliance within three years of signing a private investment contract with government. In addition, companies are required to submit an annual Angolanization plan to The Ministry of Petroleum (MINPET), detailing how they plan to reach their targets[18]. The Angolan government can punish companies with significant fines or by delaying work visas, holding vital parts for operations up in customs and, perhaps most significantly, by not inviting companies to participate in tenders for new contracts[19].

The Ministry of Petroleum (MINPET) has recognized the challenges for foreign drilling contractors to be in compliance with the 70/30 requirement from the outset. Foreign drilling contractors can thus negotiate conditions with the National Private Investment Agency (ANIP), which is an authority overseeing that foreign investors comply with the local content

[18] Source: http://localcontentangola.com/

[19] Source: http://www.eia.gov/countries/cab.cfm?fips=ao

requirements stepwise and within the shortest possible period of time. Due to this agreement, MD has to be in compliance with the 70% in 2017. Every year MD have to report to ANIP on progress, and is exposed to fines if not in compliance with the annual requirements. A company in the oil industry that does not have an agreement with ANIP is obliged to submit an annual report to MINPET. This report is to focus on the training of Angolans and nationalization of expat positions. If companies are not in compliance they are exposed to massive fines, up to 10% of the annual payroll. The local content requirements as such are not negotiable. But if a company shows a proactive approach to be in compliance and can document that it has done everything possible to nationalize positions, MINPET might not issue a fine even if the company has been not able to reach the designated target.

Many drilling contractors have been relying on the exception of not being able to find competent Angolans to fulfill positions, but in mid-2013 MINPET established a new internal department with the purpose of ensuring that companies took an ambitious approach to their Angolanization plans. Even if companies can document that they have made efforts to recruit an Angolan into a position, this does not suffice, and the expectation is now that companies train Angolans up to the required levels themselves. As MINPET is also the authority that decides if an expat can get a work permit or not, this have had expensive consequences for some drilling contractors, as they, due to a laid back approach to Angolanization, did not get needed work permits issued, and therefore had to shut down operation until this was put in order. When a deepwater rig is not in operation, the drilling contractor lose a day rate per day not in operation, and this on average amounts to a loss of approximately USD 500.000[20]. Relations to MINPET are thus key to running an operation in Angola. Due to MD's agreement with ANIP, they are not obligated to report to MINPET. It was nevertheless decided to do this reporting in order to establish a stronger relationship with the ministry.

Local content as opportunity

The CSR department saw a unique opportunity for MD to differentiate itself by making a serious attempt to comply with the private investment contract negotiated with the Angolan government. It was envisioned that the company can take what was referred to (in internal presentations) as "a different position". As communicated by the CSR department, this signified an approach that has

[20] http://www.ihs.com/products/oil-gas/ei/drilling-rigs/offshore-day-rates.aspx

consistent focus on value creation, and which strives for a balanced portfolio of activities that effectively handles compliance and risk issues while looking for strategic opportunities[21]. According to this mindset, local content is an occasion to turn a perceived problem into a benefit for the company. The argument being that local content has not received proper attention so far. It has mostly been seen as something to avoid or work around. While several functions of the business have been involved in dealing with the issue, there has been limited cooperation and no clear ownership to develop a common direction and common goals. To remedy this, the CSR department proposed a local content strategy: MD should strive to capture additional value in key markets by enhancing competitiveness through an integrated, holistic approach to local content. It wanted to be seen as a true partner for social development by host nations and customers. The mission was to create the highest possible degree of shared value by engaging with and understanding the needs of the communities in which it operates through a strategic, systemic and agile approach[22].

This initiative had support in local operations provided that extra resources were committed to drive this as well as cultivating government relations in general at higher levels. Due to safety concerns, and the technical expertise and high risks involved in drilling, decisions to sign off on a national as being ready to displace an expat have to be made by operations. Hence, the process needs to be driven by operations. Under no circumstances must compliance efforts and compliance deadlines be allowed to jeopardize safety. To iterate, it is the rig manager who need to make the call of whether it is, for instance, safe to replace an experienced expat with an Angolan employee. To ensure focus in the long-term, KPI’s have to be inserted into key managerial staff objectives both offshore and onshore in regard to nationalization targets.

As of 2013, MD was at 49% nationals against 51% expats – meaning that the company was in compliance as it has three years to reach the goal of 70/30. It had committed to a local acceleration program consisting of 7 training modules that was meant to enable hiring of different local personnel. The biggest challenge was the large number of technical personnel the company had committed to in the private investment contract. If MD was not able to source candidates from existing crews to become part of training programs, the company would have to create a group of trainees from scratch that would undergo theoretical and technical training to

[21] Source: Maersk Drilling CSR department, internal presentations.
[22] Source: Maersk Drilling, CSR department internal presentations.

prepare them for technical jobs. Such an effort could be supported by collaboration with other Maersk BUs that were also engaged in training activities in Angola, although such collaboration was made difficult by the different skills needed. A Talent Management initiative involving all BUs had been initiated by Maersk Oil – as Angola is one of the M15 countries the CEO of this company has oversight of.

Challenges going forward

While many of the arguments for engaging in efforts to comply with local content requirements had been about making a long-term commitment to investing in Angola and working toward becoming a preferred partner of the Angolan government, communications about these efforts suggest a more short-term horizon for business and CSR engagements in the country (a common concern for drilling operations compared to e.g. the more long-term engagements of oil companies). The importance of the temporal dimension was acknowledged in Maersk Drilling's 2013 (online) report on their sustainability performance:

> Whether we are able to train local employees to the level required to man our rigs is just one of the many questions we are asking ourselves. Will we have adequate time to provide enough training to local employees given the duration of our stay in Angola is only three years? Will we be able to impact the development of local communities sustainably, given our short-term stay? And what will happen if our contract ends and we leave for another country?
>
> Are the local content requirements reasonable, or are there other options that would generate more value to the local community? We do not have all the answers yet, but we are working hard to lay a solid foundation for overcoming these challenges. If we wish to grow our business in Angola and other West African countries, we must further invest in local content[23].

MD currently only has one rig in Angola, and its contract runs until 2017. The company is working to secure more contracts to create a basis for a more long-term presence in Angola.

Assignment

As a starting point, the CSR department of Maersk Drilling has suggested that efforts to comply with local content requirements – and showing good will above and beyond formal requirements

[23] Source: http://www.maerskdrilling.com/sustainability/sustainability-performance/Pages/local-content.aspx

– can be seen as a form of shared value creation, i.e., strategic CSR. Discuss *how this effort creates (or has potential to create) value for, on the one hand, the company and, on the other, Angolan society*. Be as concrete as possible in terms of singling out who can benefit from this and how value can be created.

Considering how the Angolan government has stepped up its efforts to ensure compliance with local content requirements, discuss *whether – or the extent to which – there is actually room left for companies to approach local content strategically*. Is it realistic to move beyond compliance? What would your recommendations for top management be?

On another critical note, *weigh the arguments for and against proceeding with local content and making it the central CSR effort in Angola*, not least considering that the company may only be making a short stay in the country. Do you think it is a worthwhile commitment? Do you find that there are other ways of approaching responsibility in Angola that could be more attractive for the company and have better prospects of delivering results in terms of business and/or social value? What would your recommendations for top management be?

Finally, discuss *whether or not MD, as a company that values social responsibility, should be active in a country such as Angola to begin with* – considering that it is one of the most difficult and corrupt business environments in the world. Should considerations of responsibility enter into decisions of whether to engage in particular developing countries? If so, how would you argue for or against engaging in Angola (again, from the point of view of CSR)?