

Make or Break: Reputational Risks facing Chinese Companies Operating in Africa's Extractive Industries

By

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Declaration

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Abstract

Multinational Companies operate in the political sphere where political risks are created. Political risk is an ever-evolving field with new risks emerging and old risks changing as the world continues to become more interconnected. Reputational risk has emerged as a field of study in recent years, commonly seen as a risk of risks, or realised political risk. Reputation has increasingly been ranked as the number one strategic risk facing multinationals, with threats to reputation stemming from several sources. Events such as the British Petroleum oil rig explosion in the Gulf of Mexico in 2014 catapult the study of reputation and its risks. Although much of the literature and research on reputational risk has been conducted in the commerce field, the links to politics are evident.

The ungracious political characteristics of many African countries present a political sphere that contains multiple risks. Despite possible risks, China continues to invest vast amounts into Africa, focusing on extractive industries. Reputation is reliant on stakeholder perceptions; Chinese companies' main stakeholder is their government, whose influence creates prime case studies for reputational risk. Chinese National Petroleum Company (CNPC) and Chinese Non-Ferrous Metals Company (CNMC) are the two companies focused on in this study, regarding potential reputational risks posed to the Chinese government as the main stakeholder. CNPC has invested major resources in South Sudan, with CNMC focusing their investment in Zambia. Dissecting the reputational risks presented by these countries and their political spheres to the Chinese companies operating in them was the goal of this study.

The analysis of reputational risk in this study has taken place using a qualitative model that measures four factors: who, where, what and how. Each factor is accompanied by a certain number of indicators that help achieve an overall risk ranking. This study found that there are more significant reputational risks facing CNPC operating in South Sudan. However, CNMC is not immune to the reputational risks presented in Zambia. Reputational risk forms part of a full political risk analysis. From the reputational risk perspective, South Sudan is seen as a high-risk investment opportunity and Zambia a medium-risk investment opportunity.

Opsomming

Multinasionale maatskappye is werksaam in 'n politiese sfeer waar politiese risikos ontstaan. Die studie van politiese risiko is 'n ontwikkelende gebied waar nuwe risikos voortdurend ontstaan en ou risikos voortdurend verander as gevolg van die wêreld wat al meer gekonnekteerd raak. In meer onlangse tye het reputasierisiko al hoe meer na vore getreë – dit word beskou as 'n risiko van risikos of gerealiseerde politiese risiko. Reputasie word al hoe meer beskou as die grootste strategiese risiko wat deur multinasionale maatskappye in die gesig gestaar word. Verskeie bronne kan die moontlike oorsaak van reputasierisiko en bedreiging wees. Gebeure soos die Britse Petroleum olietuig ontploffing in die Golf van Meksiko in 2014 het die studie van reputasie en die gepaardgaande risikos in die kollig geplaas. Die meeste navorsing en literatuurstudies ten opsigte van reputasierisiko vind plaas in die kommersiële veld, alhoewel die skakeling met politiek duidelik is.

Die onverbiddelike politiese karaktertrekke van baie Afrika-lande bied 'n konteks wat vele risikos inhou. Ten spyte van hierdie moontlike risikos belê China groot bedrae geld in Afrika – veral in die ontrekkingsbedryf. Reputasie is afhanklik van die persepsies van die beleggers. Die belangrikste belanghebbende in Chinese maatskappye is die Chinese regering en dit bring mee dat gevallestudies vir reputasierisiko belangrik is. Die twee maatskappye waarop hierdie studie fokus, is eerstens die 'Chinese National Petroleum Company' (CNPC) en tweedens die 'Chinese Non-Ferrous Metals Company' (CNMC). Die fokus is die potensiële reputasierisikos wat dit vir die Chinese regering inhou. Die CNPC het groot beleggings in Suid Soedan gemaak, terwyl die CNMC hulle beleggings in Zambië geïnvesteer het. Die doel van hierdie studie was om hierdie twee lande en hul onderskeie politieke omgewings te ondersoek en die reputasierisikos wat dit vir die onderskeie Chinese maatskappye inhou te identifiseer.

Die analise van reputasierisiko in hierdie studie is deur middel van 'n kwalitatiewe model ondersoek. Die model meet vier faktore, naamlik: wie, waar, wat en hoe. 'n Algehele risiko rangorde is verkry deur elke faktor met 'n aantal indikatore te verbind. Die studie het bevind dat daar meer betekenisvolle reputasierisikos is vir die CNPC wat in Suid Soedan gebaseer is. Die CNMC wat in Zambië gebaseer is ook blootgestel aan reputasierisiko faktore. As deel van 'n volle politiese risiko analise moet daar ook 'n reputasierisiko ontleding gedoen word. Vanuit 'n reputasierisiko oogpunt is Suid-Soedan die hoë-risiko beleggingsgeleentheid, terwyl Zambië 'n medium-risiko beleggingsgeleentheid is.

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They say it takes a village and it truly does.

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List of Abbreviations

BP	British Petroleum
CNMC	Chinese Nonferrous Metals Company Limited
CNPC	Chinese National Petroleum Company
CPA	Comprehensive Peace Agreement
CSR	Corporate Social Responsibility
DRC	Democratic Republic of the Congo
EIA	Environmental Impact Assessment
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNPOC	Greater Nile Petroleum Operating Company
HCENR	Higher Council for Environment and Natural Resources
IMF	International Monetary Fund
MNCs	Multinational Corporations
NFCA	Non-Ferrous Company Africa
NGOs	Non-Governmental Organisations
ONGC	Oil and Natural Gas Company Videsh
PwC	Pricewaterhouse Coopers
RGI	Resource Governance Index
RQ	Reputational Quotient
SD	Sudanese Pound
SPLA	Sudan People's Liberation Army
SPLM	Sudan People's Liberation Movement

UN	United Nations
USA	United States of America
ZCCM	Zambia Consolidated Copper Mines
ZEITI	Zambia Extractive Industries Transparency Initiative
ZEMA	Zambian Environmental Management Agency

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Chapter 1: Introduction to Study

1.1 Background

The research undertaken in this thesis is anchored in the field of political risk analysis with a specific focus on reputational risk and the political connection thereof. Companies build their reputations up over long periods - reputation is an asset that cannot be bought and is fragile in nature (Dominguez, et al., 2016:2). Respondents from the Financial Times Stock Exchange 500 companies ranked reputational risk as the most important risk their companies face. However, the time spent engaging in reputational risk and the management of these risks was less than engagement in other elements of their company (O'Callaghan, 2007:99).

Reputation can be defined as “the result of external actors’ assessments of particular attributes or collective knowledge about a firm” (Gaudenzi, Confente, Christopher, 2015:250). These authors further define risk as an unfavourable event that can generate a negative deviation from an expected situation – including a smaller gain or greater loss than what was anticipated (Gaudenzi, et al., 2015:251). In this case, external actors are the stakeholders in a business, project or organisation. Stakeholders can be individuals, including the public or customers, groups or governmental organisations.

Spence (2011:59) further states that the management of reputational risk is central to the long-term success of companies. From these definitions, one is able to gain a basic understanding of reputational risk - it occurs when external actors negatively assess a company, which can result in possible negative consequences in the company's numerous business aspects. Stakeholders are the worthiest evaluators of reputation and reputational risk (Benn, Abratt, Kleyn, 2016:828), primarily due to their contribution to and investment (monetary or otherwise) in the company.

Reputational damage may result in the reduction of corporate value, a hindering of future opportunities as well as an increased cost of future business (Smith-Bingham, 2014:5). Deloitte conducted a reputation risk survey in which 87% of executives rated reputation risk as “more important” or “much more important” than any other strategic risks their companies were facing (Deloitte, 2015:5). Aon Global Risk Consulting¹ conducted a more recent survey on

¹ Aon Global Risk Consulting falls under Aon plc, a global firm offering a wide range of risk solutions, amongst other services.

Global Risk Management that also indicated that damage to reputation and brand is the number one risk facing companies operating today (2017:3), reiterating the importance of company-based reputational risk engagement and management. Aon projected that by 2020, damage to reputation and brand will remain ranked in the top 10 risks facing companies.

As companies invest and expand into new geographical locations, reputational risk is bearing greater importance than it has held in the past, as investments often occur in unfamiliar locations with unfamiliar actors. According to Frynas and Mellahi (2003:543), it has long been acknowledged in political and international relations literature that firms are active actors in the environment in which they function. Firms hold the ability to shape political and social environments in which they operate to their advantage. Therefore, how firms conduct business and shape their environments is continuously under scrutiny by various stakeholders and external actors.

There are countless examples of incidents where reputational risk has become a harsh reality for certain companies. The British Petroleum (BP) oil spill of 2014 at the Deepwater Horizon rig in the Gulf of Mexico is one incident that has made reputational risk, as a field of study, more prominent. This incident is considered one of the most publicly visible examples of reputational risk caused by operational failures during the extraction process (Dominguez, Jimenez-Rodriguez & Fdez-Galiano, 2016:3). Not only was there a severe environmental impact caused by the spill, but shareholders and investors in BP perceive oil spills to be tremendously serious, with the potential to damage the firms' position in global capital markets.

De Beers² is another company that realised the harm reputational risk can cause and chose to change their operational environment. De Beers left war-torn countries concerning the negative publicity they received regarding "conflict diamonds" (Bremmer & Keat, 2009:93). The United Nations (UN) (2000) defines "conflict diamonds" as "diamonds that originate from areas controlled by forces opposed to legitimate and internationally recognized governments, and are used to fund military action in opposition to those governments" De Beers received criticism from the West, including pressure from Non-Governmental Organisations (NGOs), which resulted in enduring pressure from stakeholders. The company chose to move to more stable African countries with fewer security and reputational risks, in order to maintain a strong reputation with public and shareholders alike. This incident is an example of where the country's reputational risk was high enough to negatively affect companies operating within

² De Beers is an international diamond exploration, extraction and retail corporation.

their borders, which may cause said company to seek new locations where their reputation would likely not be tarnished.

Multinational corporations (MNCs), like the aforementioned examples of BP and De Beers, have increasing pressure to improve their performance on social, political and environmental issues. Royal Dutch Shell has previously realised the reputational risks they had taken as a company, causing damage to their standing on these issues. Some of these incidents include having run operations in South Africa during Apartheid³, being accused of involvement in executions in Nigeria⁴ and a battle with NGO Greenpeace over oil dumping in the sea⁵ (O'Callaghan, 2007:96). Royal Dutch Shell is the epitome of the costs involved in repairing a tarnished image, after having spent tens of millions of pounds sterling to reinvent itself as a socially- and environmentally-responsible company.

Although reputational risk is a field of study that is often neglected within the field of political risk analysis, it bears great importance. Corporate reputation is commonly associated with marketing and public relations; it has been studied by accountants, sociologists and economists, yet political science is often notably unaccounted for amongst those studying corporate reputation. O'Callaghan (2007:100) finds this curious, as there have been extensively studied links between politics and markets, as well as governments acting as key stakeholders in companies.

This study incorporates the above-mentioned aspects by analysing Chinese MNC's and their operations in Zambia and South Sudan's extractive industries, ultimately attempting to determine the reputational risk these countries hold to investors operating within their borders. The study hopes to indicate that reputational risk is something MNC's expecting to pursue operations in a new territory need to consider seriously.

1.2 Preliminary Literature Review

According to Rice & Zegart (2018:6), twenty-first-century political risk is the probability that any political action can considerably affect a company's business. Political actions no longer only occur in traditional places such as government buildings or parliament, but can take place anywhere at any time, with the possibility of negatively impacting business. In the past,

³ Royal Dutch Shell was the subject of protests in 1986 regarding business involvement with South Africa's Apartheid regime.

⁴ The company was accused of execution participation in 1995.

⁵ The company was the subject of protests, and a public battle with Greenpeace, in 1995.

companies and individuals did not have to be concerned about home-based political risks affecting their investments abroad or vice versa. In the world we live in today, investments can be carried out and managed on a global scale; the quantity of political actors that can affect the operations of multinational companies is therefore expanding and diversifying (Bremmer & Keat, 2009:180).

Political risk matters on a macro (national and transnational) and a micro (local and regional) level in today's world (Bremmer & Keat, 2009:3). Political risk is a multidimensional discipline, as one form of risk can lead to another – economic trends can influence political risk, just as political decisions can have economic consequences. Social conditions can also influence political risk. Furthermore, one cannot limit sources of political risk to the host country (the country where the investment is being made); risks can stem from the home country (the country investing). Risks can also stem from the international environment and its changes (du Toit, 2013:6).

An increasingly common category of political risk is that of regulatory scrutiny or boycotts and demonstrations occurring in the home country of a company due to their investments abroad (Bremmer & Keat, 2009:180). Increased investment in emerging markets and developing countries that often touch on transnational issues can be considered the primary source of this. These transnational issues may include environmental issues, human rights, labour ethics, corruption and money laundering. Transnational issues are fast becoming the third rail of political risk, with these possible risks culminating in the reputation of a company, likely negatively affecting it (Bremmer & Keat, 2009:180).

Political risk can affect reputation in a multitude of ways (McKellar, 2010:60). One way is when political actors feel hostility towards a firm, they hold the ability and influence with the public to vilify the firm. Firms can also become entrapped between political interests – an example is conflicting interests between NGOs and local contractors. An inability to identify political and social stakeholders in a firm can make the firm appear to be insensitive to social interests (McKellar, 2010:56). Furthermore, if a firm is perceived as not being able to manage political risk, their reputation can be harmed.

Reputational risk is a concept that is used not only in the field of political risk, but also in the financial risk and corporate risk fields. Most of the literature and research surrounding reputational risk is grounded in the financial and accounting field - companies such as

Pricewaterhouse Coopers⁶ (PwC) publish yearly reports on reputational risk. There are also financial journals such as the Journal of Risk Finance⁷ and Risk Management Association Journal⁸ that publish works primarily focused on reputational risk. As a result, reputational risk is a concept that has varying conceptualisations and definitions across the numerous disciplines in which it is studied.

As reputational risk has multiple definitions from multiple disciplines, measuring it and its actual effects on business is challenging. Some authors and companies choose to measure reputational risk quantitatively, however qualitative measurements are more commonly used in the field of political risk analysis. Swanepoel, Esterhuysen, Van Vuuren and Lotriet (2017) developed a four-point matrix that measures reputational risk qualitatively, looking at four specific elements of risk – who, where, what and how. This model is similar to those that have traditionally been used in political risk analysis, despite its aim toward financial institutions. The model was created to help companies proactively track and improve their reputations, and political risks associated therewith (Swanepoel, et al., 2017:315).

In order to choose a suitable method for measuring reputational risk, it must be defined. Dominguez et al (2016:1) states that “reputational risk arises when negative publicity, triggered by certain business events, whether accurate or not, compromises the company's reputation and causes an economic loss”. This negative publicity or discontent towards a company can lead not only to a public reaction, but also to political actions aimed at the company involved (du Toit, 2013:16). Other authors acknowledge that reputational risk can be divided into both business and socio-political factors; this division broadens the scope of the study as well as the range of risk sources (Benn, et al, 2016:830).

O’Callaghan (2007:109) defines reputational risk as “referring to a range of ‘threats’ that have the potential to undermine a corporation’s ability to function as a commercial enterprise and impair its standing in the community”. The author further divides these risks into two broad categories – those social and political in nature, and those business or commercial in nature (O’Callaghan, 2007:109). This definition makes the relationship between reputational risk and political science clearer, acknowledging that reputational risk sources can certainly be political

⁶ PwC is the second largest professional services firms and is one of the big four auditing firms alongside KPMG, Deloitte, and Ernst and Young.

⁷ The Journal of Risk Finance is a premier journal that is focused on the field of applied financial risk management.

⁸ This journal is written by risk professionals offering practical ideas and news on enterprise risk management.

factors. It is repeated throughout existing literature that reputational risk is the number one risk facing companies (Aon, 2017:3, Benn, et al., 2016:829, O'Callaghan, 2007:99). This is especially true for companies in the extractive industries of natural elements such as oil, gas and mining. Fragoulie & Joseph (2016:33) further emphasise that the extractive industry is sensitive, and companies involved are gradually being faced with increased social and environmental accountability issues.

Oil and gas production are associated with substantial social costs – social dislocation, conflict, air pollution, oil spills, injuries and, in some cases, death (Spence, 2011:59). There are also threats to the reputation of the company operating in the extractive industry stemming from different government regulations and policies, nationalization of property, terrorism, civil conflicts, strikes and acts of war (Fragoulie & Joseph, 2016:39). Environmental damage has been identified as a major risk source in oil, gas and mining extraction, as it can fuel ethnic and social pressures, and consequently generate negative perceptions about the companies involved in the creation or expansion of damage (Bremmer & Keat, 2009:45). An increasingly-informed public tends to punish corporations that they deem to be acting unethically or in an exploitative fashion (Bremmer & Keat, 2009:94). This punishment also occurs when corporations do business in countries with unpopular or discredited regimes, rebel groups, or during times of conflict. Many companies in the extractive industry enter areas of high socio-political risk to start operations either unaware or without considering how it may affect their reputation.

Africa is well-known for being endowed with plentiful natural resources, which causes many countries and companies turning to Africa when searching for new locations to start extraction or exploration projects. Despite its natural resources and the influx of international investors, African markets are still considered to be developing and often show signs of high socio-political risk. It has also been identified that in less developed African economies, political risks (and therefore reputational risks) are rooted in the host-country and its conditions (Han, Liu, Gao, Ghauri, 2017:123). According to Control Risks (2019)⁹, only seven countries¹⁰ in Africa present a low political risk environment with the majority ranking between medium and extreme risk environments.

Regardless of Africa's generally high-risk environment, African resources still attract great investment. Behind the United States of America (USA), China is the second-largest investor

⁹ Refer to Appendix A for the Control Risks map.

¹⁰ Namibia, Botswana, Ghana, Senegal, Seychelles, Cabo (Cape) Verde and Mauritius.

in the continent (Sow, 2018). China has focused much of its investment in the extractive industries of African countries and their developing economies. In 2018 China announced that it would be offering US\$60 billion in financial support to Africa (Sow, 2018). China is increasingly investing in Africa and therefore more Chinese companies have, or are looking to, expand operations into African countries. Any decision regarding investing in a foreign country carries reputational risks, especially regarding sensitive extractive industries such as mining and oil. African countries are also synonymous with carrying levels of higher risk for investors, which may create higher reputational risks.

Alastair Fraser (2008) stated that Chinese investment in Africa “squeaks” in around the boundaries of more established firms. The Chinese are willing to take up assets that Western stakeholders have reckoned to be unattractive and do not have the courage to incorporate in their businesses. Anthony and Hengkun (2014:79) agree with this – Chinese companies have pursued partnerships with countries that are generally considered high-risk or as having poor relations with the West. The example these authors make use of is Sudan. Bodetti (2019) indicates that this is still true, maintaining that China has built much of its reputation as a growing world power through the economic philosophy of risk-taking, hence continuing to invest vast amounts of money in Africa.

Chinese state-owned companies such as Chinese National Petroleum Company (CNPC) present an example of this risk-taking philosophy. CNPC has come to dominate South Sudan’s oil industry despite South Sudan’s continuing corruption, civil war, war crimes and support for terrorism abroad (Bodetti, 2019). CNPC entered South Sudan in 1995, long before the country became independent in 2011. Despite sanctions from other countries such as the USA, CNPC decided to stay in South Sudan to gain a monopoly over the oil reserves. Up to 98% of the country's profits depend on petroleum, allowing CNPC great influence in the country (Bodetti, 2019). Despite holding this influence, the reputational risks of the CNPC choosing to stay and operate in South Sudan, despite their volatile political and social environments, must be considered. CNPC was less risk-averse compared to other companies in their entry into South Sudan but they were eventually affected by political, security and reputational risks (Patey, 2013:3). The oil industry in Sudan was developed in a context of war, sanctions and political isolation (Abdalla, Siti-Nabiha, Shahbudin, 2013:2). This context has changed slightly but still carries great risks as the country is far from completely recovered.

China has also invested greatly in the extractive industry in Zambia - Africa's second-largest metal producer. Sino-Zambian relations go back to 1964 with their relations being solidified with the construction of the immense Tanzania-Zambia Railway (TAZARA) (Lubinda & Jian, 2018:207). By 2014, China had invested nearly US\$4 billion in Zambia with a focus on mining. In 2018, the mining company NFC Africa, majority-owned by China Non-ferrous Metals Company Limited (CNMC), invested US\$832 million in Zambia's mining industry; this investment extended the company's lifespan by 20 years in Zambia (Mfula, 2018). Zambia's mining industry can be volatile and unstable at times – as indicated by Control Risks (2019), Zambia carries a medium-risk for conducting business. Despite volatility and possible reputational risks posed to their company; China finds the profits of operating in the country worth continuing operations. Notwithstanding profits and company growth, Chinese companies must consider reputational risk seriously.

The Chinese government is the largest stakeholder in these companies with their financial support coming from the government-owned bank, Exim Bank (Hugland, 2008:557). China has also changed their outlook on other factors of business that increase the pressure on firms to maintain a good reputation with the government. China evacuated over 35 000 citizens from Libya during the civil war in 2011 (Anthony & Hengkun, 2014:84), which was a turning point in China's commitment to protecting the lives of its citizens living and working internationally. This promise to protect Chinese citizens has become a domestic priority, increasing pressure on any companies operating in territories of high security risk to maintain a reputation that reiterates the domestic safety priority.

As previously mentioned, with high investment in the extractive industry comes high risk to reputation. Chinese companies have not been immune to this. In 2010, Chinese managers at Collum Coal Mine shot 11 Zambian workers during a protest. This was only two years after an explosion at the Chambishi explosive factory, killing 21 Zambian workers (Elcoate, 2018). In 2011, Human Rights Watch released a report on labour abuse, union-busting and poverty wages, incriminating subsidiaries of CNMC (Lubinda & Jian, 2018:218). These two incidents are examples of how these companies' reputations are negatively affected, as well as their operations. Reputational risk can work in two main ways – there are reputational risks when conducting business in a foreign country that has a high socio-political risk, but firms may also conduct negative business practices that damages their reputations.

As Chinese investors and projects continue to operate in Africa, they become further interconnected in local political and economic structures (Hugland, 2008:558). This increases the likelihood for conflicts as seen in the above examples, especially as most political and economic structures in African countries are very fragile to begin with. Monitoring of Chinese firms operating in Africa has increased in order to avoid these conflicts, placing their reputations under higher scrutiny. These highly monitored Chinese MNCs have been faced with increased pressures to adapt to the “norms” of international investment practices as their integration into the global market increases (Li, 2010:13). As Chinese investments are exposed to increased political, security and reputational risks, they have had to develop and improve their risk management and mitigation tools. As these companies evolve, it becomes apparent that there are fewer differences between them and traditional Western companies than what is portrayed or anticipated (Patey, 2013:3). Reputation is, therefore, a remarkably important asset and aspect for all companies, whether they operate internationally or not.

Considering the objectives of this study, and to answer the research question as set out further on in this study, the theoretical frameworks behind political risk analysis must be understood. Political risk analysis is grounded in a combination of problem-solving and decision-making theories. For Brink (2004:30) this is "generally assumed to be a theory underlying rational decision-making under uncertainty". Political risk is seen as an uncertain field due to the ever-changing risk environment. Venter (1998:1) writes that the analysis of political risk is a tool that investors, in this case Chinese companies, can use to make reasoned and justifiable investment decisions. The decision-makers (risk analysts in this case) should anticipate future events, decide what mitigation is possible about these events, and make a choice regarding which events would produce a preferred outcome (Venter, 1998:1). Brink (2004:3) agrees with this - when threats are observed and measured, political risk analysts can mitigate them and anticipate any possible reoccurrences in the future. To manage the uncertainties of investments for the investor, political risk analysis is seen as a "rational attempt at problem-solving" (Brink, 2004:3). The theoretical frameworks of political risk analysis used in this study will be expanded upon and conceptualised further in chapter two.

1.3 Research Problem and Question

The relationship between reputational risk and political risk analysis is not always made clear in the field of political science. However, reputational risk can stem greatly from home and host country political risks, holding great importance when completing a political risk analysis. This study aims to make these connections between reputational risk and political risk clearer.

These links will be made through analysing the reputational risks Chinese companies face when operating or planning to operate in Zambia and South Sudan's extractive industries.

Chinese companies are classified as emerging economy multinational enterprises. There is a dearth in the research on how these enterprises perceive political risk in other countries where they are investing or operating, given the significant home-government involvement in their international actions (Han , et al., 2017:122). This is the primary focus of this study – looking at how CNPC and CNMC perceive reputational risk in South Sudan and Zambia, given that the Chinese government is the greatest stakeholder.

In this study, the reputational risks will be identified and assessed using a four-point matrix. This is based on the aforementioned matrix developed by Swanepoel, Esterhuysen, Lotriet and van Vuuren in 2017. This matrix qualitatively measures reputational risk and was specifically designed to measure the reputational risk of a South African bank operating in Mauritius. This matrix will be moulded in this study to assess reputational risk in the extractive industries of copper and oil and in the context of political risk analysis. It will also be investigated as to whether these companies have risk mitigation plans. Through examining the case studies of Zambia and South Sudan, it will be possible to see if there are similar reputational risks between these two cases. The matrix will be further explained and discussed in chapter three.

The main research question of this study is:

What are the reputational risks to Chinese companies conducting operations in extractive industries in Africa?

In order to assist in answering this research question the following steps will be taken. The theoretical frameworks of risk will be considered to assist in the choosing of a model to identify reputational risk. This model will be adjusted to suit to this study and not be focused on measuring or assessing but rather identifying the reputational risks to Chinese companies.

Explanatory propositions will also be subject to analysis in this study. This includes the idea that Chinese companies are less concerned with their reputation when compared to other traditional companies such as BP or Royal Dutch Shell. Following reputational incidents that have occurred in Zambia and associations with South Sudan, there are prepositions that China is 'high risk for high reward', investing in high-risk countries to gain higher rewards. This preposition not only makes Chinese companies more attractive than other traditional companies for this specific study, but is a profoundly important part. The matrix model to be explored in

chapter three will assist in analysing this proposition, and unpack the risks that Chinese companies are taking through operating in these countries and their risk environments.

1.4 Rationale and Objectives of the Study

The objective of this study is to bring attention to the importance of reputational risk when making decisions regarding investments in foreign countries, especially investments in the extractive industry and emerging markets. This study aims to identify the reputational risks specific to Chinese companies operating in Zambia's mining industry and South Sudan's oil industry, notably CNMC and CNPC. This study intends to increase the understanding of reputational risk (from a political science perspective) and how to identify these risks (in a business setting).

As previously mentioned, reputational risk is a field that has been neglected in political literature, but also greatly by companies themselves. Aon's Global Risk Management Survey (2017) gathered information from close to 2000 respondents in both public and private companies – most of, if not all, these respondents ranked reputational risk as the greatest risk to their companies. Despite the understanding of its importance, there is a clear disjuncture between the information presented and the action taken to identify and mitigate reputational risks. The study of successful risk management and defining it involves understanding the social and political processes surrounding corporate success and failure (O'Callaghan, 2007:101).

Another survey conducted on a smaller scale – 44 respondents of companies with a minimum of US\$10 million revenue per company respectively – found similar results. Reputational risk is seen as a priority for managers, yet there are still limited ways to identify, measure and forecast reputational risk through possible prevention and mitigation (Gaudenzi, et al., 2015:257). Reputational risk will retain its position as a top 10 threat to companies for the foreseeable future and requires further research in order for companies and stakeholders to learn how to manage these risks correctly. Despite the research that has been conducted on reputational risk, incidents continue to occur. This study strives to contribute a new outlook and perception on reputational risk and how to identify and forecast it more effectively and efficiently.

This study also focuses on the most sensitive industry in political risk analysis – the extractive industry. There is tremendous reputational risk attached to companies involved in Africa's extractive industries. This needs to be explored further; not only to expose these risks to

companies, but to help them forecast these risks more productively and allow them to understand how they can mitigate reputational risks. Control Risks (2019) has included reputational risk under their political risk forecast considerations for their risk map. However, this is only a recent addition - the reputational risk still has much growing to do in the field of political risk analysis, both through academic research and literature, as well as within business settings.

Outside of political risk analysis, this study will also contribute to contextualising Chinese and African relations further. Chinese engagement in Africa is a contentious subject; much of the literature focuses on this engagement from an African perspective but not from a Chinese perspective. Li (2010:5) believes that this relationship is over-scrutinised (by the public) but under-researched (within academia). Patey (2013:4) echoed this notion, also believing that changing the research angle to dissect how Africa is impacting China would refine the research on this topic. Nine years ago, Li already identified that Chinese operations in Africa are under the microscope of Western media (2010:5). These operations also challenge traditional Western engagement in Africa.

This study therefore offers contextualisation of individual cases and furthers the research on Sino-African relations; it will contribute to the political science field by broadening the scope of research on reputational risk. The research conducted in this study will further help broaden the scope of traditional political risk analysis, as well as offer African risk analysis from an African perspective.

1.5 Research Design and Methodology

This study aims to locate the reputational risks of Chinese companies, CNMC and CNPC, investing and operating in the extractive industries of metal and oil in Africa, through research that is explanatory and descriptive in nature. Neuman (2014:38) defines descriptive research as presenting a picture of the specific details of a certain situation, social setting or relationship. In this case, the details of Chinese companies' operations in South Sudan and Zambia will be descriptive research, looking at the how and who of operations. This research is also explanatory, building on descriptive research, to explain the reputational risks of these companies operating in South Sudan and Zambia. Explanatory research aims to look for causes and reasons (Neuman, 2014:40). In this case, the descriptive research – presenting a specified detail-oriented picture of the situation – will inform and allow the explanatory research – looking for causes and reasons for the detailed picture – to be completed in this research; this

study attempts to create a double tiered study to further inform the place of reputational risks and the causes and outcomes in political science and its literature.

The research design to be used in this study is both comparative and empirical in nature. This design requires examining existing data and analysing it to determine the causal circumstances surrounding reputational risks of Chinese companies operating in Africa's extractive industries. The research design also includes a multiple case study design analysis, commonly used in the social sciences. Neuman (2014:42) argues that case study research has the following strengths: conceptual validity, heuristic impact, casual mechanisms identification, an ability to capture complexity, calibration, and holistic elaboration. These strengths allow for a tremendously broad topic to be narrowed down into more easily researchable problems, currently and for the future. Gustafsson (2017) agrees that multiple case studies allow for a wider discovery of theory and, therefore, research questions.

The research methodology of this study is qualitative, relying on existing secondary data. Qualitative research is a tool used for explanatory research and is the most common method of research in the field of politics. Qualitative research allows for an in-depth examination of subjects and allows explanatory and causal links to be indicated (Ritchie, 2003:28), which goes in partnership with empirical research. Qualitative research and data also allow for new theoretical insights to be drawn up (Han , et al., 2017:126), which therefore provides better understanding of the topic, as well as more questions to be discussed. The secondary data used in this study consists of books, journal articles, reports, theses and databases, made available through the University of Stellenbosch.

A multiple case study approach can result in stronger and more reliable data than a single case study design (Gustafsson, 2017). Multiple case study design also allows the author to study not only similarities, but also differences between the cases. The multiple case study design used in this study is inclusive of a comparative aspect. Comparative case studies are common in political science. Comparative case study design can recreate the logic of an experiment to study phenomena that cannot be easily studied using a normal experiment. This includes phenomena such as wars, coups, mortgage crises, and in this study, risk (Barakso, Sabet, Schaffner, 2014:179). Furthermore, comparative case studies embrace nuance and complexity, two factors that are common in risk studies (Barakso, et al., 2014:178). The comparative aspect of this study supports the multiple case study approach through using aspects from both approaches to create the correct circumstances in which reputational risk can be further

discussed, expanded on and understood. This study has been approached in this manner in order to prove that it is necessary to view reputational risks from a political science perspective, in order to fully understand the economic and social consequences the risks may present.

This research focuses on two case studies – South Sudan and Zambia. Chinese companies are extremely active in Africa, especially within the extractive industries. As mentioned, China is the second-largest investor in Africa, and has a different philosophy when it comes to risk-taking in comparison to other countries. Chinese companies are also younger in their operations in Africa; companies such as Total or Royal Dutch Shell have been operational for decades in Africa, while Chinese companies have only recently made their mark on the continent. Royal Dutch Shell has experienced greatly realised reputational risks in Africa and as such, has developed risk mitigation and recovery tactics. This makes Chinese companies a better subject for this study as they have not yet developed risk mitigation and management techniques for their African business deals.

South Sudan and Zambia have been chosen as the case studies for this study as they have both attracted great Chinese investment in their respective extractive industries. Zambian-Sino relations go back to the 1960s, showing a strong relationship between the two countries. China also decided to not withdraw from South Sudan after independence, unlike most other countries and companies, making it one of the few subjects still available for research in South Sudan. The unit of analysis for this study is individual Chinese companies, namely CNMC and CNPC. The two countries studied also allow for a comparison and contrast to take place. Both South Sudan and Zambia have varying political risks that can affect the reputation of Chinese companies operating in these countries. With China's growing investment and operations in Africa, this study is relevant to these companies now and for the future.

1.6 Limitations and Delimitations of Study

One distinct limitation of this study is the definition and conceptualisation of political risk itself. Political risk is a concept that has been defined multiple times by multiple authors throughout its history as a discipline. However, many authors have agreed that there has not been a consensus reached on a specific definition of the term (Alon, et al., 2006:624). These varying definitions will be expanded upon in chapter two to provide more context, as will the definition used in this study.

Brink (2004:2) further adds to this discussion that the measurement and observation of political risk depends greatly on subjective human judgement. For some, this human subjectivity is the

issue with political risk analysis; to counteract this subjectivity, designed political risk models are employed when measuring political risk. In this case, the employment of the four-point matrix (Swanepoel, Esterhuysen, van Vuuren & Lotriet, 2017), used to measure reputational risk, will assist in providing a more objective stance and act as a tool to counteract human subjectivity.

The definition of reputational risk is also a limitation; there is no consensus on a definition of reputational risk, although many are available (Eckert, 2017:150). There are, therefore, numerous ways to measure reputational risk. Confusion in literature around an exact definition also leads to differing opinions on measurement methods (Swanepoel, et al., 2017:316); this will also be expanded on in chapter two, offering the numerous definitions available. Chapter three will further expand on measurement methods commonly used to measure reputational risk, the model created by Swanepoel, et al., and why this model is suitable for this study. The definition and measuring tool followed for this study will once again be made clear.

Another limitation identified in this study concerns the information surrounding Chinese companies operating in Africa. The specific risk analysis methods or mitigation plans of these companies is not publicly available, and therefore, this study is conducted with limited knowledge of the specifics of Chinese companies' operations in Africa. To overcome this limitation, the author is creating her own risk analysis method in this study to measure reputational risk specifically. This model could be recommended to these companies or be used in addition to any other methods they do make use of. The situation in South Sudan is one of extreme volatility and has an ongoing state of emergency that was declared earlier this year, 2019. Information and actions coming out of South Sudan related to this study will therefore only be considered until July 2019. Any action after this could be used for further studies, however, would not fit into the timespan of this study.

This study also makes use of secondary data and has no primary data collection. Secondary data is popular with social scientists, although the data has originally been gathered by someone else and the current researcher has no control over how and where the data was captured. When using secondary data, the researcher must consider the units in the data – time and place, sampling method, specific issues or topics covered. This will be addressed throughout chapters four and five, making use of reliable and carefully considered secondary data.

1.7 Outline of Remainder of Study

Chapter two will expand upon the theoretical frameworks that form the basis of this study – problem-solving and decision-making theories; a conceptualisation of important terms will also be provided for better comprehension of this study. Terms such as political risk, country risk, reputational risk, political instability, home and host risk, and macro and micro political risk will be conceptualised. Conceptualising these terms will assist in understanding the model presented in chapter three and further helps to build the application of the case studies in chapters four and five.

Chapter three will be divided into two sections. The first half of chapter three will introduce the 4-point matrix model used to assess reputational risk in the banking sector developed by Swanepoel, Esterhuysen, van Vuuren and Lotriet (2017). The second half of chapter three will expand upon the changes made to the model and why these changes have been made for the model to suit the extractive industry and therefore, this study.

Chapters four and five will provide a contextualisation of Chinese companies operating in Zambia's copper belt and South Sudan's oil reserves respectively. The contextualisation will provide further insight as to why these two case studies were chosen for this study. Furthermore, this chapter will look more in-depth at the reputational risks of Chinese companies operating in Zambia and South Sudan. This will be achieved by using the model described in chapter three to measure and assess the reputational risk of South Sudan and Zambia.

Chapter six will provide a conclusion to this study, evaluating the research completed and discussed in the previous chapters. A conclusion on both case studies will be reached individually, and a conclusion on the comparison between the two case studies will be discussed. Further recommendations for future research on reputational risk and how it affects the operations of Chinese companies in Africa will also be provided through critically assessing the results from the analyses in chapters four and five.

1.8 Conclusion

This first chapter of this study has provided not only an outline of the chapters and research to come, but has also offered basic outlines regarding concepts related to and used in the study. Background information and a preliminary literature review have provided insight into what reputational risk is, why it is of importance in political risk analysis, and why the case studies of South Sudan and Zambia have been chosen. The main research question of " What are the

reputational risks to Chinese companies conducting operations in extractive industries in Africa?" has been established. The steps to answer the research question have further been outlined in this chapter.

This study is descriptive and explanatory in nature, making use of qualitative secondary data with a multiple case study design inclusive of a comparative aspect. Furthermore, this chapter has introduced the method that will be used to assess the reputational risk of South Sudan and Zambia – a four-point matrix – to be expanded upon further in chapter three.

Chapter 2: Theoretical Grounding and Conceptualisations

2.1 Introduction

This chapter is set out to achieve three goals. The first goal is to explain the theoretical grounding of this study and the two theories that help drive political risk analysis – decision-making and problem-solving theories. The second goal of this chapter is to provide a conceptualisation of important terms related to this study and the main research question. An in-depth conceptualisation allows for a greater understanding of terms such as reputation, political risk and reputational risk. This is important as it allows you, the reader, to have a better understanding of the chapters that follow, where these terms are used to help explain, answer and analyse the main research question of this study relating to Chinese companies, Zambia and South Sudan.

The final goal of this chapter is to offer a contextualisation of risks that are traditionally specific to the extractive industry as the central subjects of this study are the mining and oil industries. This contextualisation is significant as it shows the relationship between reputational risk and the extractive industry. This section offers awareness into how this industry is more susceptible to micropolitical risks, one of these being reputational risk. This section specifies how the extractive industry is more vulnerable to damaging reputational understanding and carries greater reputational risk in general when compared to other industries.

As will be seen with many of these terms, there are multiple definitions, conceptualisations and debates surrounding them. The purpose of this chapter is to offer an overview of these debates around terms such as political risk and reputational risk. Furthermore, this chapter aims to bring these debates together to offer the reader greater insight into the fields being studied here – namely political risk, reputational risk and political risk analysis.

2.2 Theoretical Grounding: Decision-Making and Problem-Solving Theory

Much of the work that steers society's course and economic and governmental organizations of society revolves around making decisions and solving problems (Simon, Dantzig, Hogarth, Plott, Raiffa, Schelling, Shepsie, Thaler, Tversky & Winter, 1987:11). Although this notion emerged during the 1980s, it can still be considered true today. Electing problems that necessitate attention, creating goals, finding and designing the correct courses of action, and evaluating and selecting alternative actions all make up this work that assists in steering society and organizations towards growth. Choosing problems, creating goals and planning actions are

all commonly known as problem-solving (Simon, et al., 1987:11). Evaluating and selecting actions are commonly known as decision-making.

Problem-solving and decision-making theories are mainly concerned with how people “cut problems down to size” (Simon, et al., 1987:11). This involves looking at how people apply heuristic techniques to help them handle complex problems that cannot be managed precisely. When looking to invest in a new project or expand into a new country, the investor may be uncertain of the best route to follow. These two theories and their relationship to political risk have stood the test of time and, even in the expansion of globalization, scholars involved in decision theory are still interested in the unpacking of political risk and political risk analysis (Sottilotta, 2013:13).

To reduce the uncertainty related to new investments or expansion, an individual or business should take the steps involved in decision-making. These steps include conceptualising the idea to invest in or expand operations, creating a feasibility study of the possible outcomes, preparing detailed requirements, implementing the decisions made and finally, operating on the initial concept (Brink, 2002:46). When decision-makers have gathered enough information, they can change some uncertainties into risk, which can translate into action against these identified risks (Han, et al., 2017:124). Rational decision-making processes assume that full utilization of information and a rational ability to estimate the likelihood of alternative outcome have taken place (Lax, 1983:15). This purpose is served by adding a political dimension to decision-making processes, specifically regarding investments and future ventures by firms. Political risk analysis, according to Lax (1983:15), is seen as a crucial part of rationalizing decisions regarding investments.

As mentioned, decision-making theory aids in making rational decisions during periods of uncertainty – in this case, political uncertainty. Decision-making theory is accompanied by the decision analysis process where one transforms decision problems into transparent decisions (Howard, 1988:680). This is achieved through formulating, evaluating and appraising before acting on the decision problem; this is viewed as a systematic procedure. An individual or business formulates an alternative that is logically consistent with the decision problem, evaluates this alternative and then an appraisal of the analysis can take place.

This appraisal looks at why the alternative is not only logically correct but also persuasive enough that the decision-maker will act accordingly to the alternative presented (Howard, 1988:681). The appraisal process may identify shortcomings that require attention; it continues

until the alternative is considered the most correct option for the decision-maker, and only then can the appraisal analysis stop. When formulating the decision, one has a set of “sensitivities” - one considers the choices (alternatives to the problem), the information presented (models or probability assignments) and preferences (value, time and risk preferences) (Howard, 1988:681). After this has taken place the analysis of the alternative can begin.

The work of political risk analysis is also centred on problem-solving theory (Lambrechts, Weldon, Boshoff, 2011:108). Problem-solving theory allows risk analysts to understand and forecast political risks that could potentially pose a problem to the profitability of a chosen investment. A political risk analyst can analyse and compare the various options to try and manage the uncertainty of the investor – this is a rational attempt at problem-solving (Brink, 2002:46). Together, these two theories allow for political risk analysis to act as an important tool for executive decision-making (Sottilotta, 2013:1). This tool can be used in guiding new investments and expansions in different economic sectors (Lambrechts, et al., 2011:108).

Risk analysis and quantification are provided to offer input to an underlying “decision problem” (Kaplan & Garrick, 1981:25-26). This “decision problem” involves risks as well as other costs and benefits. Risk should therefore always be well thought-out within a decision theory framework. Through making use of the decision-making tool that these two theories – decision-making and problem-solving – offer, an awareness of the risks (problems) can be created. Once awareness is created, steps can be put into place to assist either avoiding or profiting from the problems (Brink, 2002:46). This is where risk mitigation tools assist in safeguarding against risks and helping firms either avoid, manage, or profit from risks.

2.3 Risk

Unlike a concept such as instability, risk is not a tangible thing; it can be defined and assessed in various ways. Some assess risk as a potential loss in financial flows, as possible underperformance in business operations, or as a negative incident that cannot be measured under uncertain circumstances (Gaudenzi, et al., 2015:251). Some use statistical probability to define risk, while others look at the potential loss in relation to the potential gain (Han, et al., 2017:123). Kaplan and Garrick (1981:12) refer to risk as involving both uncertainty and loss or damage that might be experienced. These authors state that risk is often seen as probability times consequence; however, they prefer the notion that risk is probability and consequence, believing that the definition of probability times consequence may be misleading (Kaplan & Garrick, 1981:13). Blomquist (2015:14) provides an example that demonstrates this concept of

risk as seen by Kaplan and Garrick – oil and gas companies may compete for the rights to an extraction industry in a certain country. During the decision-making process, the companies vying for the rights to extraction are in a state of uncertainty, however, they are not facing risks – there is probability that they may not get the rights but there are no consequences to this decision. There is only probability but no consequence which implies no risk as indicated by Kaplan and Garrick.

According to Bremmer and Keat (2009:4), risk is the probability that any given event will result in a measurable loss to a certain extent. For these authors, risk is made up of two factors – probability and impact. The authors refer to questions such as “how likely is this risk to occur?” and “how big of an impact will it have?” to determine the probability and impact (Bremmer & Keat, 2009:4). Yet, it can be tough to answer these questions or determine where the risk is originating from or being created. A risky event is part of a causal chain – a certain cause (or causes) can increase the probability that an event will occur, then resulting in business loss (Bremmer & Keat, 2009:4). Once the event has occurred, it will carry consequences that depend on who is exposed to the risk event. Benn et al (2016:830) see risk as the product of social, organisational and managerial processes that have the potential to create negative consequences for a firm. This is different to some of the previous definitions in that it relies on mistakes being made within the company, rather than defining processes both within and without the company as the other definitions suggest.

Risk can also be portrayed as expectations concerning future instability - expectations that have a market value and possibly determine future profits (Frynas & Mellahi, 2003:545). While current conditions are not seen as risks, risk rather originates from changes in/to the current conditions (Lax, 1983:8). Risk is therefore a subjective observation of how instability could affect a firm in the future; risks are assessed to forecast the likelihood of different types of instability. A definition of risk that is more appropriate for this study, and the overall subject of reputational risk, is "an unfavourable event, capable of generating a negative deviation from an expected situation, such as a smaller gain or a greater loss than expected" (Gaudenzi, et al., 2015:251). This is a more appropriate definition than those previously discussed as reputational risks can result in negative results or consequences in different business areas. This idea will be clarified once again when defining reputational risk later in this study.

Lax (1983:8) identifies that with risk, an individual or business is able to calculate probabilities and therefore protect against and manage future possibilities of risk. Frynas & Mellahi

(2003:546) agree with this, affirming that risk suggests that there is a capacity to form a judgement – even if it is subjective – about the probability of different types of instability¹¹. Once an assessment is made one can safeguard against these risk(s). Kaplan and Garrick (1981:12) reiterate this point further, stating that "risk is never zero", although safeguarding is awareness, and awareness of risk reduces risk. Risk assessment, when part of the investment decision-making process, is project-specific and can be firm- or even product-specific but is inevitably an important step in the process (Frynas & Mellahi, 2003:542).

One should note that there are not only negative implications of risk. When a thorough risk analysis takes place, opportunities where risk may result in growth, even if there is a possibility of losses, must be acknowledged (du Toit, 2013:6). As stated, risk should be constructed as being firm- or project-specific as it depends largely on the goals and resources of a given firm or project (Frynas & Mellahi, 2003:546). These authors believe this firm- or project-specific risk assessment should be done rather than a country risk analysis – a term to be conceptualised further along in this chapter. This section ends with the notion that risk is a subjective judgement that is made on the probability that an event may occur, realistically assuming that an event that will carry a consequence or impact on all parties involved.

2.4 The Evolution of Political Risk

As previously mentioned in chapter one, political risk is a difficult term to define. Throughout political literature, there are multiple definitions offered by multiple authors. However, one consensus can be taken away from the literature – that there is no consensus on a definition of political risk (Fitzpatrick, 1983:249, Alon, et al., 2006:624). Political risk was initially introduced as a component of country risk. This was done to help explain the causes of insolvency of a country that was not a direct result of financial or economic factors (Sottilotta, 2013:1). Country risk and political risk are two terms that were once considered to be synonyms. However, country risk analysis is of a much larger scale than that of political risk¹². A country's political risk and country risk are also not necessarily connected as a country can have a low country risk and a high political risk.

¹¹ Even though there are 20 years separating these articles, the definition and ideas surrounding risk have not changed in a significant manner within the necessary literature.

¹² Country risk analysis uses tools such as the balance of payment sheets or country creditworthiness, whereas political risk analysis makes use of political, economic and social micro-risk indicators (Brink, 2002:26).

Country risk incorporates total risks – non-business or business – that a country offers to foreign investors and firms (Brink, 2002:29). The main actors concerned with country risk are countries that are petitioning for loans and then banks, states or monetary organizations that are willing to provide these loans. Howell (1998:4) indicates that country risk analysis includes examining the economic and financial characteristics of a system to forecast conditions in which foreign investors will likely encounter problems in certain national environments. Thus, political risk is a specific relation of country risk (Brink, 2002:29). Country risk implies a country's inability to repay loans if granted, whereas political risk refers to a country's unwillingness to repay the loans (Brink, 2004:23).

The term political risk has evolved greatly since the 1960s with events throughout history changing the reception of political risk (Sottilotta, 2013:2). Events such as the Suez Canal crisis¹³, the 1973 OPEC oil crisis¹⁴, the 1979 Iranian Revolution¹⁵, debt management in the 1980s¹⁶ and attacks on the World Trade Centre in the 1990s¹⁷ affected political risk and the perceptions of it. These events have all had large impacts on the perception of political risk by the business world and transformed the face of global politics. Political risk is influenced by the passages of law, the shortcomings of leaders and the rise of popular movements – all factors that can either politically stabilize or destabilize a country (Bremmer, 2005:52).

¹³ This crisis involved forces from Great Britain, Israel and France launching a joint attack against Egypt in 1956 to rid the country of General Gamal Abdel Nasser's rule. The attacks failed and marked the decline of Great Britain's colonial rule in the Middle East. The result was the vital Suez Canal being nationalized by Nasser, replacing the Anglo-French company that ran the canal prior to the attack (Al Jazeera, 2008).

¹⁴ 1973 saw the smaller, militarily weaker and less developed nations acting through the Organization of Petroleum Exporting Countries (OPEC) to create an embargo on oil (Issawi, 1979:3). Supply was affected and prices were pushed up greatly by oil-producing countries, heavily affecting the global economy.

¹⁵ The Iranian Revolution led to the last royal family of Iran being ousted (Ansari, 1999). The royal family had been supported by the USA as a result of Cold War politics. The monarch's government was replaced with the Islamic Republic and had strained relations with the West for many years thereafter.

¹⁶ In the 1980s, the world was facing imbalances, high inflation, unemployment, current account deficits and lower commodity prices. Many Latin American and African countries entered the 1980's with high levels of debt (United Nations, 2017:51-52). They could not repay their debt due to high debt service payments; these countries were pressured into adopting programmes that required drastic changes in political and economic management.

¹⁷ Ramzi Yousef planted a bomb that he hoped would bring down one of the twin towers in New York (Foden & Reeve, 2001). Although his plan failed, 6 people died and over 1000 were injured. Many believed that the attacks of 9/11 echoed Yousef's 1993 attack. This attack started changing the way people understand terrorism.

A firm's domestic political environment can affect its operations, making the concern of political risk as important for locally based firms as it is for international firms; political risk generally tends, however, to focus on investment abroad (Lambrechts & Blomquist, 2016:1). Most firms are comfortable and familiar with their domestic political environment as most executives are aware of and understand the home-based political processes (Lax, 1983:4-5). Foreign political circumstances and events are generally not understood as well; this makes these political conditions aboard riskier and less predictable.

It is important to define and measure political risk, as any firm that wishes to pursue business opportunities in one or more foreign countries is susceptible to political risks and the consequences thereof (Alon & Herbert, 2009:136). Defining and measuring political risk is an evolutionary process for both academics and risk analysts; political risk is a dynamic field, having and continuing to change constantly. Political risk is regarded as "highly complex and multidimensional phenomenon" (du Toit, 2013:5). Political risk is hard to define due to its nature of being a process and not necessarily a sudden event. Risk is not fixed and can evolve (du Toit, 2013:5). This can be seen in the evolution of political risk definitions and conceptualisations as explored in this chapter.

As with any risk, political risk can have positive or negative outcomes for different entities (Alon & Herbert, 2009:130). There can also be differing consequences for different firms, as not all political events that may have negative effects on one firm will necessarily have negative effects for all international firms in all situations (Kobrin, 1979:67). Bremmer (2005:52) echoes this notion, maintaining that the impact of risks depends greatly on the investment that is being undertaken. Every investment also needs a specific analysis – a hedge fund manager would be more concerned with a development that might impact the markets tomorrow, whereas a CEO investing aboard would be interested in a longer-term analysis.

The above notion is illustrated by Frynas and Mellahi (2003:548) and their example of the Nigerian civil war of 1967-1970. This civil war created issues for onshore oil production being conducted by international oil companies, yet it created an opportunity for other firms as they could expand their offshore oil production during the time of political instability¹⁸. There were

¹⁸ Political risk and political instability are related concepts yet should not be confused. Political instability is a criterion to measure the probability of political risk occurring and, like political uncertainty, is a property of political risk (Brink, 2004:19). Political instability refers to "biased uncertainty" regarding the probability of a

negative implications created for some firms, due to the risk created by the civil war, and opportunities created for other firms. It is argued by Van der Lugt and Hamblin (cited in du Toit, 2013:5-6) that Chinese firms have this outlook on risk and political risk (of possible opportunity) when investing in Africa. For these firms, risk can equate to gains and lead them to invest in countries with higher political risk, including the case studies of this study - South Sudan and Zambia.

Political risk is often thought of as a relationship between the host government and foreign business companies - the main sources of political risk are generally considered to be nationalization and expropriation (Lambrechts & Blomquist, 2016:1). In the past, it was also common for country risk to be synonymous with political risk (Alon, et al., 2006:626). However, this viewpoint has changed as the field has evolved. Specific projects, companies, and even industries face different risks within a country, risks that cannot be solely analysed using a country-risk model. Furthermore, the views of nationalization and expropriation as the main sources of political risk has also changed (Alon, et al., 2006:626). The increase of risk related to terrorism since 9/11¹⁹ has forced this change in thought.

Handel and West (1975:11) define political risk as "the risk or probability of occurrence of some political events that will change the prospects for the profitability of a given investment". These authors later noted that political risk is both investor- and investment-specific. Lax (1983:9) chooses to define political risk as the probability that the goals of a venture will be affected by changes in the political environment. It is the probability that political changes will create a change in the investment climate that is regulating the venture. This definition was given during the time of debt management²⁰ when investment and debt programmes were being implemented. The structural adjustment programmes required many policy changes in numerous countries to qualify for loans, inherently changing their political environments. Llewellyn Howell (1998:3) offers a similar definition to Handel and West (1975), and Lax (1983), defining political risk as the possibility of a political decision or event in a country inducing change in the business climate. This effect can result in investors losing money or not

political event taking place. An example of political instability is an unexpected change in government leadership that may or may not hold political risk for international business (Fitzpatrick, 1983:250).

¹⁹ The 9/11 attacks on the World Trade Centre in New York changed how foreign affairs and security were viewed by the government (Bremmer, 2005:52). The attacks changed risk calculations all over the world and spurred a new political risk outlook.

²⁰ Refer to Footnote 8.

generating the profits they had expected. This definition was provided after the World Trade Centre²¹ attack in New York that saw investors exercising caution when pursuing new investments in the USA, due to one event that proved to be a great security and political scare.

The most common category of definitions of political risk is related to government or sovereign actions (Fitzpatrick, 1983:249). These definitions focus on the unwanted costs of government or sovereign actions. Kobrin (1979:67) states that these unwanted actions can include interfering with or stopping business transactions, altering terms of agreement, or causing a seizure of solely- or partially-owned foreign business property. A second category looks at political risk in terms of events (Kobrin, 1979:67; Fitzpatrick, 1983:249). These incidences may include political acts or restrictions imposed on a specific industry or firm, or even a combination of both.

A third category of definitions offered looks further into the impact of the surrounding business environment on political risk rather than political risk in isolation. In accordance with this category, political risk in business occurs when discontinuities, which are difficult to forecast, occur in the business environment as a result of a political event (Fitzpatrick, 1983:250). These events are considered a risk as they have the potential to affect the profit (or other goals) of a firm. These environmental factors can include instability and direct violence, restrictions on operations due to expropriation, discriminatory taxation or public sector competition (Kobrin, 1979:67).

The fourth and final political risk definition category looks at political risk in an environmental context, like category three, however there is no detailed definition or conceptualisation of political risk. Those that assign themselves to this category do not search for a definition of political risk; it is rather acknowledged that a source of risk to international firms originates in the political environment or the general environment (Kobrin, 1979:67; Fitzpatrick, 1983:250). This category simply acknowledges that political risk indeed exists in the international environment, but the category does not pursue the nature of these political risks in any detail or depth. The research explained here took place during the aftermath of the 1973 OPEC oil crisis in which the world was thrust into economic and political turmoil. The 1970s also saw

²¹ Refer to Footnote 12.

the unfolding of the Cold War²² where political decisions were starting to impact the actions of business and investors at a higher rate than previously seen.

Political risk changes according to different eras, home and host countries, and firms and organizations involved (Alon, et al., 2006:626). This is illustrated through the evolution of political risk definitions as indicated above and further on in this study. Political risk is now seen as a broader concept that is grounded in and influenced by many environmental aspects (Alon & Herbert, 2009:128). A widely-accepted definition used by many scholars looks at political risk as "the governmental and societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of foreign business operations and investments" (Alon, et al., 2006:625). However, Alon acknowledges that this definition is not complete and chooses to add an economic dimension to this definition. The economic climate of a country is an incredibly important source of political risk - the relationship between politics and economics has long been acknowledged, therefore the risks involved cannot be separated. Adding an economic dimension also offers a more accurate definition of political risk, as most firms include economic variables in their political risk analysis models (Alon, et al., 2006:626; Alon & Herbert, 2009:129).

Bremmer and Keat (2009:5) define political risk as the probability that political action will result in changes in economic outcomes. Robert McKellar (2010:3) offers a concise definition of political risk: "potential harm to a business operation arising from political behaviour", which echoes the definition offered by Bremmer and Keat. Stottilotta (2013:6) additionally offers a similar definition to these authors, defining political risk as the probability that the profitability of a venture can be negatively affected by conditions ascribable to unforeseen changes in the domestic or international political arena, or due to governmental policy choices affecting the international investor's property rights.

Frynas and Mellahi (2003:546) maintain that to develop a full understanding of political risk one must evaluate the different sources of risk/uncertainty. In their article, five types of uncertainty are expanded upon – political uncertainty, government policy uncertainty, social uncertainty, macroeconomic uncertainty and natural uncertainty (Frynas & Mellahi, 2003:546).

²² The Cold War was a period of tension between the United States, the Soviet Union, and their allies, from 1946-1991 (Blakemore, 2019). During these 45 years, there was an arms race, proxy wars involving many allies and an ideological conflict to try gain world dominance.

For this study, political, policy and social uncertainty are of importance as they hold the potential to affect reputation. Political uncertainty relates to threats and opportunities resulting from "potential or actual changes in the political system". These threats can include war, revolutions, coup d'états, change of government, or incidences of political upheaval - political risk is perpetually connected to political change (Truscott, 2006:20). When a manager makes a probability judgement relating to an uncertain political event in the host country, they are converting a political uncertainty into a political risk (Fitzpatrick, 1983:250).

Policy uncertainty can come from instability in government policies that hold the ability to impact the business environment. Social uncertainty comes from the beliefs, values and attitudes of the general population that are not involved in government policy or business practices (Frynas & Mellahi, 2003:547). Social uncertainty can manifest in social unrest, demonstrations, riots and the like. Brink (2002:29) adds that political risk indicates a degree of impact that governmental policies and societal actions transpiring within (internal risks) or outside (external risks) the host country can have on foreign firms' operations and investments. Brink not only acknowledges that political risk can stem from both host and home countries, but also that societal actions, as a result of social uncertainty, play an important role.

As shown, there is a plethora of definitions and debates surrounding the conceptualisation of political risk. Rice and Zegart (2016:6) provide the preferred definition that will be used for this study – "twenty-first-century political risk is the probability that a political action could significantly affect a company's business". This definition emphasises the increasingly important role of risk generators that originate from outside the typical places such as capitals, army barracks and party headquarters. This definition is supported by a strand of research that looks at political risk as a multifaceted phenomenon that can arise from various home and host country sources (Han, et al., 2017:124). These sources of risk are also no longer the traditional ones as mentioned by Rice and Zegart – Corporate Social Responsibility (CSR), sustainable development and treatment of local employees are all factors that have become sources of political risk. The main takeaway from the definition of Rice and Zegart is that political actions that may impact business can occur everywhere.

2.5 Political Risk Analysis

In order to fully understand the suitability of the four-point matrix used for this study, a background to political risk analysis is necessary. Political risk analysis aims to bring attention to the origins or causes of the political threat, from whatever level it originates (Howell,

2014:309). As is mentioned in the definition of political risk by Rice and Zegart²³, these levels or origins of political risk are no longer from traditional areas, but political risk can occur anywhere and everywhere. This is what political risk analysis currently considers. Models are created that consists of the political and social characteristics of a country. The variables chosen, why these variables are chosen, the number of variables and the weights given to each variable are decided by the theory held by the model builders (Howell, 2014:308). Brink (2004:42) further argues that improvement in the field of political risk analysis requires industry-specific, time-specific and investment climate-specific analyses to take place, which is part of the aim of this chapter.

The aim of conducting a political risk analysis is to gain and provide information to the investor upon the nature and level of political risk involved in their business ventures. This allows the investor information on which to base their investment decision and pursuit of operations (du Toit, 2013:7). Political risks analysis is not an exact science and it is not possible to accurately predict it; one can merely forecast political risk. This is done through basing evidence on scientific theories or empirical evidence (Brink, 2004:27). The political risk analysis' quality, methodology, and the quality of data used all influence the reliability and validity of the forecast being made (du Toit, 2013:7).

When conducting a political risk analysis, researchers must be aware of the relationships between variables and indicators. Several models studied by Howell (2014:312) listed the extent of democracy and involvement of the military in politics as two separate indicators. These two variables are, however, interrelated and can be combined into one indicator. This is the basis of deciding which indicators can be eliminated or combined with others in order to prevent the assessment becoming distorted.

There are many models that have been created for political risk analysis, with some being qualitative and others being quantitative. Qualitative models consider soft factors²⁴ whereas quantitative models consider hard factors²⁵ (Boshoff, 2010:29). For the best possible analysis

²³ Refer to page 39.

²⁴ Soft factors include uneducated or unemployed politically-mobile workers, depletion of scarce resources or levels of adult literacy (Boshoff, 2010:19). Soft factors focus on events that could contribute to political risk but are not clear and observable.

²⁵ Hard factors consider states of emergency, political instability, disputes, failed states, and ideologically influenced fiscal decisions (Boshoff, 2010:19). Hard factors are observable and clear to the investor.

to take place a model should be a combination of both soft and hard factors. The main argument for the use of qualitative approaches is that the political situation and risk factors are considered in context (du Toit, 2013:7). Specific situations can be considered in the context in which they take place and problem-solving theory can be applied to the situation. A wider range of information can also be gathered when applying the qualitative approach.

Both a strength and weakness to qualitative models are that the analysis relies on the analytical skills of the analyst. The analyst has subjective judgement (as all humans do) that can see anomalies that quantitative methods might not; however, subjectivity can also harm the analysis (Boshoff, 2010:30). Despite this, qualitative models are still preferred as there is great difficulty in representing social situations mathematically for a quantitative approach. Reputation depends greatly on the perception of stakeholders and reputational risk often arises from social situations. The context of political and social situations in South Sudan and Zambia are under consideration for this study and therefore contribute to reputational risk. A qualitative approach allows for this context to be taken into consideration. Furthermore, as indicated, when considering political and social factors, a qualitative model is the best option. These factors contribute to reputational risk and therefore, the choice of a qualitative model is the most suitable option for this study.

2.6 Reputation

Any firm planning to start operations or amidst operations mainly aims to achieve a profit as failing this is harmful to the firm. If a firm maintains this outlook, it is possible for them to lose sight of other factors that may be less tangible, but are equally as important for a business to succeed (McKellar, 2010:4). An example of this skewed outlook is “realised political risk” that can damage a firm’s reputation. Reputation is a broad concept and an exact definition depends greatly on the discipline in which one is creating an analysis (Dominguez, et al., 2016:1). Within the strategic management discipline, reputation is seen as a resource, yet from the sociological perspective reputation is seen as an outcome of shared socially constructed perceptions.

Firms across the world will have a set of important assets that allow the firm to pursue successful business ventures. These assets may differ in different sectors of business, but three general assets can be identified across the board – people, reputation and performance (McKellar, 2010:57). Reputation, as an asset, is of substantial importance to firms as it offers a competitive advantage; certain business characteristics may offer firms a vital distinction

from their competitors (Swanepoel, et al., 2017:315). McKellar (2010:59) defines a firm's reputation as "character as perceived by key stakeholders, including owners/stakeholders, staff, investors, partners and societies in which the firm operates". In this case, societies include NGOs and media outlets who monitor businesses ethical performance.

Reputation allows a firm moral gravitas and credibility, two undoubtedly important sources of influence, when seeking support for new business ventures (McKellar, 2010:59). However, reputation is an intangible asset and not an easy concept to define, making it difficult to measure or evaluate (Swanepoel, et al., 2017:315; Dominguez, et al., 2016:1). Nevertheless, it is widely agreed upon that a loss of reputation can affect competitiveness, business and/or societal positions, stakeholder loyalty, media standing, income, public image and legitimacy of operations (Benn, et al., 2016:830; The Reputation Institute, 2019). A poor or damaged reputation can lead to shareholders believing that disaster awaits a firm and that the firm may not be capable of withstanding the disaster (Swanepoel, et al., 2017:314).

Despite the difficulty with defining and measuring reputation, it is a fundamental asset that offers tangible benefits to businesses (Dominguez, et al., 2016:1). These benefits include premium prices for products, lowers costs for capital and labour, greater employee loyalty, greater scope for decision-making and greater goodwill standing in critical situations, among others. Furthermore, a good reputation boosts investment from various stakeholders in a given company and relates to a greater overall return (Swanepoel, et al., 2017:314). Rebuilding a reputation amongst stakeholders can also be a costly and lengthy activity; in the worst-case scenarios, reputational capital²⁶ can never be regained.

Truscott (2006:6) adds reputation as a "cross-cutting risk" to the category of political risk. According to this author, reputation refers to how those who wish to interact with, or already interact with, a firm, perceive the organization (Truscott, 2006:6). Those who wish to interact with, or already interact with, a firm include customers, shareholders, lenders, employees, government, other businesses and organizations such as NGOs.

Professionals in the extractive, as well as risk professionals, have reached a consensus that reputation is a very important concept to those firms involved in the extractive industries (Fragoulie & Joseph, 2016:34). Firms must manage risks across their industry to protect their reputations; unless risk management takes place, a loss of share value, consumer boycotts,

²⁶ Reputational capital is defined by Swanepoel, et al., (2017:314) as "a function of benefits gained, and costs avoided".

lawsuits and greater industry regulations can emerge. This reputation-based research argues that reputation risk management is essential for companies, such as oil companies, to endure and be profitable in the long run (Fragoulie & Joseph, 2016:1). Reputation and the extractive industry are closely intertwined and are hence the focus of this study.

2.7 Reputational Risk – the Risk of Risks

Finding an exact, or agreed-upon, definition of reputational risk in the existing literature is not an easy task. As with political risk, there is no consensus on a definition and there are a wide variety available (Eckert, 2017:150). This is also due to reputational risk being used across multiple disciplines such as finance, accounting and politics; there are, therefore, various outlooks on the subject as well as attempts to create a consensus on the definition, to be used across all disciplines. However, across these disciplines, there is consistency regarding the idea that reputational risk is the risk of risks (Eckert, 2017:150). Underlying risk events often lead to an additional reputational loss (Deloitte, 2015:8). This section aims to bring definitions of reputational risk from various disciplines together and outline the definition that will be followed for this study.

The Comité Européen des Assurances²⁷ and Groupe Consultatif Actuariel European²⁸ define reputational risk as follows:

"[r]isk that adverse publicity regarding an insurer's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of the institution. Reputational risk could arise from other risks inherent in an organization's activities. The risk of loss of confidence relates to stakeholders, which include, inter alia, existing and potential customers, investors, suppliers and supervisors" (Eckert, 2017:150).

According to this definition, the damage due to loss of reputation relates to a poorer perception of the company by stakeholders.

The Basel Committee on Banking Supervision²⁹ likewise offers a definition of reputational risk:

"[t]he risk arising from negative perceptions on the part of the customers, counterparties, shareholders, investors or regulators that can adversely affect a bank's ability to maintain existing or establish new business relationships and continued access to sources of funding.

²⁷ The European Insurance and Reinsurance Federation

²⁸ Actuarial Association of Europe

²⁹ The Basel Committee exists as a body that provides global standards for banking regulation

Reputational risk is multidimensional and reflects the perception of other market participants”
(Eckert, 2017:150).

This definition focuses on the damage of reputation due to business loss, leading to a change in the behaviour of the stakeholders. This change in behaviour is generally caused by poorer perceptions of the business post-loss.

O’Callaghan (2007:109) affirms that reputational risk comes from a range of "threats" that hold the potential to weaken a firm's ability to function as a corporate enterprise and damage its community standing. Deloitte (2015:8) reviews the three primary drivers of reputational risk as security, ethics/integrity and products/services. This concurs O’Callaghan’s definition focusing on a range of threats. Reputational risk differs from other risks in that it incorporates completely "manmade" products of social interaction and communication (Benn, et al., 2016:829). Reputational risk is identified by Swanepoel, et al. (2017:314) as a risk that is harder to manage than others, yet it is a principal asset of most firms. Swanepoel, et al. choose to use the following definition in their paper:

“[r]eputational risk is the likelihood of loss or decline in the reputation of a firm in a manner that negatively affects the perception that the social environment has on the firm and to be an effect of direct or indirect loss in the value of the firms” (Lizarzaburu 2014, cited in Swanepoel, et al., 2017:314-315).

Fombrun, et al. (2000:88) defines reputational risk as the "range of possible gains and losses in reputational capital³⁰"; they further suggest that since reputational capital depends on stakeholder support, every stakeholder group is a possible source of reputational risk that needs to be managed correctly in order to lower reputational risk within a given firm.

According to O’Callaghan (2007:109), reputational risk can be divided into two categories – risks that are social and political in nature, and those that have to do with business. Social and political sources of risk to reputation relate to community standards of behaviour and are typically external to the firm; examples include environmental standards, exploitation of labour, indifference to health and safety issues, abuse of human rights and a lack of concern for local community problems. In terms of business-related reputational risk, product recall, service failures, poor decision-making or infighting are all considered to be possible sources. Business-related reputational risks are naturally internal to the firm itself.

³⁰ A company’s reputational capital is the value of the company that is at risk in daily interactions with stakeholders (Fombrun, et al., 2000:87).

Dominguez, et al. (2016:1) share a different view to that of O’Callaghan; these authors believe that the “triggers” of reputational risk are normally internal. This outline of reputational risk disregards the social and political sources of risk as outlined by O’Callaghan. Furthermore, Dominguez, et al. believe that reputational risk causes an economic loss for the firm but do not consider the other negative consequences³¹ as outlined by Benn, et al. (2016:830). For this study, the definition and conceptualisation of reputational risk and its sources as given by O’Callaghan (2007:109) will be used to guide the research, focusing on threats that could potentially affect a firm’s business ventures.

As previously mentioned, O’Callaghan (unlike other authors) divides reputational risk into the two categories of business sources and social and political sources. Identifying that there are different sources of risk is necessary for this study as it narrows down the scope of research and guides this study more easily. Furthermore, this study is anchored in the field of political science and, even more broadly, the social sciences – having a specific category of reputational risk that focuses on these fields is helpful to this study and future research that might take place³². O’Callaghan also offers a definition that emphasises that there is a large range of threats, not just a few or common threats, that can affect reputational risk – this definition compliments the definition of political risk followed in this study where Rice and Zegart (2016) also emphasises that risk generators can occur everywhere and outside the realm of typical places.

2.8 Home and Host Country Political Risk

Political risk has both internal and external sources of origin (Alon & Herbert, 2009:129). External sources originate outside the host country; examples may include conflicts or cooperative efforts between the host country and other countries. A specific example, that has previously been mentioned in this study, is the incident where Chinese miners shot and killed 11 Zambian workers (Elcoate, 2018). In this case, Zambia is the host country, while Chinese nationals (China being the home country) created the source of political risk. Internal sources of political risk originate within the home country; examples include governmental activities,

³¹ Negative consequences include competitiveness, business and/or societal positions, stakeholder loyalty, media standing, income, public image and legitimacy of operations (Benn, et al., 2016:830; The Reputation Institute, 2019).

³² As previously mentioned, the majority of studies on reputational risk come from financial and economic backgrounds; these risk professionals generally approach the topic in a different manner to those in social sciences, primarily due to the differences in how people are trained in different disciplines.

power struggles between local religious/social groups, and social and economic conditions. When De Beers decided to stop operations in certain African countries, it was due to the internal sources of political risk within those countries – civil war, religious and social tension.

It is not only the host country that holds risks to investments; the investor, or nature of the project itself, can present certain risks to the investment and its managers (Brink, 2004:20). Local firms who enter joint ventures with foreign firms can also be subject to risks from the host country (Brink, 2004:20). These risk possibilities are not considered under the country risk analysis, but under a political risk analysis, again illustrating the difference between the two as expanded upon previously.

Micro political risk sources can originate in the host country, the firm's home country, the international environment or a combination of these (Alon & Herbert, 2009:130). For this study, there will be a focus on the host countries – South Sudan and Zambia. The firms' home country is China and it should be acknowledged that risks may also originate from the companies themselves. Looking at the micro political risks that have arisen out of the host countries is the focus of this study, assessing these risks from the home countries perspective.

2.9 Macro and Micro Political Risks

Political risk can be divided into micro and macro scopes. With micro risk, changes in the environment in which the business operates only affect select fields of business activity or foreign firms with certain characteristics (Fitzpatrick, 1983:250). With macro risk, changes in the environment are directed at all foreign firms or investors (Fitzpatrick, 1983:250; Kobrin, 1979:68; Howell, 2014:312)³³. Macro political risk can see changes in government, or general political instability, affect all the firms in a country whereas micro political risk – caused by problems of funding of a public corporation, for example – only affects specific industries, firms or projects (Frynas & Mellahi, 2003:546).

Political risk can operate and be studied at macro or micro levels. Relationships and interactive processes are principally concerned regarding macro-level events; these create a political climate in which nations and NGOs operate daily, with the ability to create a political risk to firms (Truscott, 2006:5). If there are poor political relations between nations, responses on a micro (or local) level may disrupt business. On the micro-level, political risk can be separated

³³ Fitzpatrick (1983:250) defines these changes as unanticipated and politically motivated.

into firm-specific risks and country-specific risks, with firm-specific risks targeting a particular firm (or industry).

Micro political risk is not independent of macro political risk - they are intertwined and share some common determinants in the economic, social and governmental environments (Alon & Herbert, 2009:129). Additionally, the two risks are similar in that they both originate from internal and external sources. However, they are different in that some aspects of the firm will either increase or decrease its political risk exposure (Alon & Herbert, 2009:128). Therefore, micro political risk is considered more important to foreign firms - an analysis of micro political risks offers greater relevance and specificity to potentially harmful business ventures. The most prevalent and encountered risk is, in fact, micro political risk. Micro political risk is discriminative towards certain firms either due to the industry that they are operational in, or the characteristics attached to a specific firm (du Toit, 2013:6).

Each industry in a country has a specific set of micro political variables that hold a greater risk to firms operating in that industry. The energy industry can be affected by variables including environmental activism or potential war, whereas the banking sector is affected by variables such as the balance of payments (du Toit, 2013:6). Often industries of strategic importance, such as natural resources extraction or banking, are more regulated than those of more minor importance, such as retail, exposing them to greater political risk (Alon & Herbert, 2009:129).

Micro political risk requires the unit of analysis to not only be the target country, but also the firm's nationality, the industry in which the firm operates, the specific project it is pursuing, as well as the relationship between the target country and the investor (Alon & Herbert, 2009:127)³⁴. When completing a macro political analysis, the unit of analysis is just the target country. Micro and macro political risk also have considerably differing effects. Macro political risk can lead to dramatic effects - a government being overthrown or a change in the economic system leads to major fluctuations affecting all firms in the country. Micro political risk effects, while considerable and unpredictable, will not lead to major changes such as expropriation or nationalization (Alon & Herbert, 2009:129). Micro political risk effects tend to lean more towards policies regarding price controls, mandates for resources, limits on foreign employees and so forth.

³⁴ This study will thus be doing a micro political risk analysis – looking at not only the target countries (South Sudan and Zambia) but the industries the firms wish to be involved in and the projects being pursued (extractive).

The differentiation between macro and micro political risk is traditionally discussed within the context of decisions made by the government, however, it can also be applied to country characteristics. An example of this is where ethnic conflict and divisions might affect a manufacturing facility that is located near the division but would likely not directly affect the financial investors and stakeholders of the host country (Howell, 2014:312).

For this study, the definition of micro political risk as outlined by Alon & Herbert will be used. Alon & Herbert (2009:130) consider micro political risk as the "uncertainty associated with outcomes or events from political processes, which have potential and specific consequences for the firm that is either contemplating entry into or has already entered another country". These political processes have the potential to originate from environmental factors both within and outside the foreign host countries (South Sudan and Zambia) and can either positively or negatively affect the firms' (CNMC and CNPC) operations, assets or financial situation.

2.10 Risky Business in the Extractive Industry

Extractive industries, including those of oil and mining, are the most sensitive of all international corporate activities due to natural resources being part of a country's national patrimony (Lambrechts & Blomquist, 2016:2). Investing in the extractive industry can affect a country more than other investments in other industries as it can lead to greater international prestige and power for the country. Furthermore, it can lead to greater prosperity for the country. However, as a result of this, the extractive industries are indeed vulnerable.

Multiple risks can affect the extractive industry, including corruption, taxation, governmental regulations, civil and labour unrest, political instability, environmental activism, war, external threats and terrorism (Lambrechts & Blomquist, 2016:2). Many of these risks hold the potential to damage or affect a firm's reputation. When considering the oil industry specifically, one finds that many oil-rich countries have asserted their authority over their resource through nationalization thereof or reserving production rights to the national oil company or specific partners (Spence, 2011:70). As a result, firms have had to travel further and work harder to find and create successful oil projects. In many of these new areas, there are fewer laws, governments are often corrupt or inefficient and violent conflict is currently making it harder for these firms to operate and are making them the target of greater risk.

The mining industry is faced with similar risks to those of the oil industry as outlined above. Resource nationalism is seen as one of the greatest risks facing the mining industry, however, other risks including operating in areas that have security and political challenges are also

important risks to bear in mind (Thomas, 2013:2). Mining companies also have limited ability in choosing where they start projects, companies are forced to go where they find resources, and so projects tend to occur in more challenging environments. As with the oil industry, this exposes these companies to greater risk.

It is not a rare occurrence for firms that are involved in the extractive industry to have to "implant" themselves in the environment and community in which they operate; extractive operations can continue for years, possibly disrupting the host country's environment or local communities (McKellar, 2010:54; Spence, 2011:77). Due to this "implanting", firms in these environments are faced with greater risk from on-ground opposition from locals. Host-government led initiatives can occur, possibly leading to localised unrest or conflict, which would consequently negatively affect the company's operations and reputation. This is one example of how much more vulnerable extractive industries are when operating in unfamiliar territory.

Extractive industries are susceptible to dramatic changes and less drastic changes such as newly elected governments. After the Venezuelan president Hugo Chavez was elected in the early 2000s, foreign firms involved in the oil industry in Venezuela were faced with government expropriation of their assets (Frynas & Mellahi, 2003:20). Chavez pushed his populist ideology and many firms left the country as they lost the ability to be profitable. After the world economic crisis of 2008, Venezuela's overreliance on oil caught up with them as they became especially vulnerable to oil price shocks as a result of the crisis. Due to Chavez's policies and the expropriation of assets³⁵ international firms have not been able to re-enter Venezuela and lost a great deal after his election. The country's petroleum is now run completely by Venezuelan companies that still struggle. Countries that do not uphold contracts or nationalize industries (such as that of oil extraction) earn a certain reputation and will have less investment in the future, as can be seen in the case of Venezuela (Jensen & Johnston, 2011:663).

Regarding extractive industries, a leader's decisions can affect the industry itself as well as political and reputational risks thereof. If a country's leader chooses to rewrite contracts, for example in relation to oil and gas extractions/production, the revenues produced by the industry are affected, and reputational costs are realised (Jensen & Johnston, 2011:663). An action like this can lead to downgrading in risk ratings, and a change in stakeholders and future investors' perceptions of the leader's willingness to uphold and honour contracts. Jensen and Johnston

³⁵ These are examples of the political events that can affect the operations of firms in foreign countries.

(2011:663) further suggest that if a country is flush with rents from natural resources and extraction projects, the government is less sensitive to actions that result in their reputation being harmed.

Within the same industry, different firms exposed to the same political event may be affected differently due to the firm's capabilities and resources (Frynas & Mellahi, 2003:544). These resources include technical abilities, government connections or historical advantage. Due to these differences that affect some firms more than others, micro political risk (the subject of this study) is biased towards certain firms; this could be because of the industry that the firms operate in or other characteristics attached to the firm (du Toit, 2013:6). This also explains why firms in the extractive industry are more vulnerable to political risk, specifically micro political risk, of which reputational risk is a major part.

As mentioned in the preliminary literature review of this study and previously in this subsection, risk is persistent to companies in the extractive industry and, more specifically, risk to reputation is a large aspect of conducting this type of business. Every stage of the process involved during the extraction project, from negotiation to the completion or abandonment of the project, is subject to reputational risks (Fragoulie & Joseph, 2016:34). The sensitivity of extractive industry to reputational risks is what makes the industry an important one to be subject to a study focussing on reputational risks.

2.11 Conclusion

This chapter has been laid out to help create a clearer understanding of the theoretical grounding of this study, important terms necessary to conduct the analysis and answer the research question, and to provide an outline of the links between the extractive industry and reputational risk. The terms as outlined in the chapter are important to understand as they build the foundation of the research question and the chapters to follow. The risks specific to the extractive industry, reputational risk and political risk are the main topics of the chapters to follow where Zambia and South Sudan will be investigated further.

Both decision-making and problem-solving theories guide many of the decisions made in society daily – including political risk-related decisions. These theories help investors make rational and defensible decisions through a thorough analysis of the issue at hand, the possible solutions and evaluation thereof. Political risk is a subject of great contention, however one main idea can be taken away from existing literature: political risk is an important and ever-evolving concept that requires great attention. The definition of political offered by Rice and

Zeegart (2016:6) will guide the political risk analysis that will take place in the following chapters.

Reputational risk, like political risk, is a difficult topic to define and measure; multiple authors and multiple debates across multiple disciplines all offer different insights into what reputational risk is. However, as outlined by O'Callaghan (2007:109), reputational risk holds strong links to politics and the two are substantially intertwined. Finally, the extractive industry is far more vulnerable to reputational risks when compared to other industries due to the nature of the operations that take place and how these operations take place.

Chapter three will look at the model that will be used to analyse the reputational risks to Chinese companies operating in the extractive industries in South Sudan and Zambia (CNPC and CNMC respectively). Chapter four will analyse the reputational risks of Chinese companies in the mining sector in Zambia, with chapter 5 being the analysis of Chinese companies operating in South Sudan's oil sector.

Chapter Three: Towards a Reputational Risk Model

3.1 Introduction

As has been established, corporate reputation and reputational risk are two very important concepts for businesses to consider and pay attention to when examining possible business ventures. Managing and measuring corporate reputation is crucial in helping a business succeed in the long term. However, as mentioned in chapter two, reputation and reputational risk are not easy concepts to measure due to the multiple definitions and conceptualisations surrounding corporate reputation. Quantitative methods³⁶ are often used to measure corporate reputation, more so than qualitative methods. The techniques used to measure and assess corporate reputation and reputational risk have not kept up with the fast-paced and continually changing business environment in which firms operate today (Swanepoel, et al., 2017:313).

Swanepoel et al. (2017) created a matrix to assess and measure reputational risk both nationally and internationally. This model follows a qualitative method and comprises of four key features – who, where, what and how. Each of these features is evaluated using a template, which can then form a final assessment termed by the authors as a “reputational heat map”. The authors measured the reputational risk of a South African retail bank operating in Mauritius to create the matrix. The study was conducted after a rigging scandal involving six major international banks – Bank of America, Royal Bank of Scotland, Hongkong and Shanghai Banking Corporation (HSBC), Citibank, JP Morgan and Union Bank of Switzerland (UBS) (Swanepoel, et al., 2017:315). These banks incurred an ZAR20bn fine for rigging foreign exchange rates a mere two years after they had been caught rigging the London Interbank Offered Rate (LIBOR)³⁷. The reputation of financial institutions impacts many people as most individuals have bank accounts and entrust these institutions with their money.

The model created by Swanepoel, et al. (2017) is used as a basis for a new model that has been designed for this study. This chapter offers an in-depth analysis of the matrix created by Swanepoel et al., its suitability to this study and what exactly the model measures. Adjustments will be made to the model for it to better suit this study with some aspects being kept and others eliminated due to irrelevance. The final product will be the model that will be used in chapters

³⁶ Examples of these methods include reputation quotient or identity measures. An explanation of these methods is provided in section 3.3.

³⁷ The LIBOR is the most commonly used benchmark for short term interest rates worldwide (The Intercontinental Exchange, 2019).

four and five to assess the risks to reputation of conducting extractive operations in South Sudan and Zambia. The final model used in this study is an interpretation of the original model and is more suited to the extractive industry. Furthermore, this study's model is an interpretation that is designed from a political risk lens, whereas the original model was anchored in the field of economics and financial sciences.

3.2 The Original Four Point Model's Suitability

According to Swanepoel et al. (2017:314), reputation and managing reputation are essential to the long-term success of a company as it is a driver of company performance. Due to this notion reputational risk has become a significant topic of research within the last five decades. This increase in its significance can be due to an increase in competition, the development and expansion of global media or communication channels in which reputationally sensitive information can be disseminated, and/or customer power and their willingness to switch suppliers (Swanepoel, et al., 2017:314). These authors created a reputational risk assessment technique encompassing four key aspects: who, where, what and how. The authors believe that this assessment technique can be used in any institution, with their study focusing on the aspects that affect a bank's reputational risk.

Howell (2014:310) considered 14 key political risk assessments in his article, created by 12 different international firms³⁸. Between these 14 rating systems, there are 33 attributes and 11 decision variables listed, although none of them mention reputation or reputational risk. The attributes can be divided into external factors, nature of government and politics, and societal character. This demonstrates that between them, none of these assessments can be used to measure or assess reputational risk. This echoes the notion that measuring techniques for reputational risk are limited. Despite the importance of reputation, assessment techniques are not readily available.

Traditionally, reputational risk models focus on the financial performance of the firm and have often been critiqued for being a "single uni-dimensional measurement item" or being over-focused on the perception of a single stakeholder (Swanepoel, et al., 2017:316). The most

³⁸ These firms include The PRS Group Inc., Business Environment Risk Intelligence, Economist Intelligence Index, Moody's Investor Services, Control Risks Group, Economist's Method, S.J. Rundt & Associates, Standard & Poor Ratings Group, Eurasia Group, Chase, HIS Energy Group and Euromoney.

commonly used models to measure and assess reputational risk are ranking measures, reputational quotients and identity measures.

Ranking measures is the most conventional measure of reputation and comprises of rankings as outlined by global media. Media rankings are often performed by Fortune's Annual Survey of CEO's, the Financial Times' Most Respected Companies, Management Today's Most Admired Companies and Asia Business' Most Admired Companies (Swanepoel, et al., 2017:316-317). This assessment of reputation involves respondents being asked to rate a competitor's reputation in terms of a certain set of attributes. This assessment of reputation is based on the respondent's perception making it a qualitative method. This method is critiqued, once again, for the uni-dimensional operationalisation, the use of a single stakeholder's opinion and financially focused criteria (Swanepoel, et al., 2017:317). Furthermore, this method cannot capture all the factors of corporate reputation.

Reputational quotient (RQ) is a quantitative approach that makes use of personality as a measurement tool in order to assess a firm's reputation (Swanepoel, et al., 2017:317). Theoretically, RQ is better than reputational measures as emotional appeal is included, however it is also subject to criticisms. The scale is critiqued for the overemphasis on rational elements, a lack of conceptual definitions and the emotional appeal dimensions.

The final measure mentioned is that of identity measures. Identity measures choose to make use of both quantitative and qualitative methods, predetermined dimensions and inductive approaches (Swanepoel, et al., 2017:317). Methods include interviewing employees, desk research, content analysis and a triangulation method³⁹.

As mentioned, these models have all been subject to criticisms and are not suitable for this study. The four-point matrix created by Swanepoel et al. (2017) is the best option as a basis for a model to be created for this study. The original model utilises qualitative data from which assessment and analysis can take place; it further places a focus on individuals, processes, place and type of business – these factors assist in making the model more complete and more inclusive of factors that relate to reputational risk as well as traditional political risk models.

³⁹ The triangulation method involves a case study, in-depth interviews and nine factors being identified, and a relationship between these being examined by quantitative surveys and regression analysis (Swanepoel, et al., 2017:318).

An additional model that is not mentioned by Swanepoel et al. (2017) is the RepTrack Model developed by the Reputation Institute⁴⁰. The RepTrack Model consists of 7 “drivers of reputation” – innovation, workplace, governance, citizenship, leadership, performance and products/services (The Reputation Institute, 2019). This model is used to assess and benchmark a firm’s reputation against its peers in its operational industry. The Institute considers the emotional bond between the company and its stakeholders, which means that this model is not suitable for this study as there is not an assessment of the Chinese company’s reputations being studied, but rather the risks to reputation of conducting operations in Africa’s extraction industries.

The four aspects of the Swanepoel et al. (2017) model each have different criteria and characteristics that are linked to it. Data is gathered and then each characteristic is rated as carrying a high, medium or low risk. The authors conducted their study by attaining data from a bank in South Africa, performing the assessment of reputational risk by looking at the following: clients that the bank services, the intermediaries it makes use of (who), the jurisdiction of where the bank operates (where), the products/services they sell (what) and the manner in which they conduct business (how) (Swanepoel, et al., 2017:322). Although this matrix covers some of the most important business particulars, it is not completely suited to evaluate the extractive industry and requires an addition of other aspects, which will be explored further on in this chapter.

3.2.1 “Who”

The “who” aspect of the matrix is concerned with the risk that any counterparty may pose to the reputation of the firm (Swanepoel, et al., 2017:318). For the original matrix, indicators such as client profile, source of wealth, client intent and underlying beneficiary owner are inspected. This aspect of the matrix focuses on the client’s identity and helps establish what kind of transactions the client is likely to take part in. This also allows the banks to flag any transactions that might be of a suspicious nature. The “who” aspect relies on secondary qualitative data analysis using tools such as Know Your Client, internet searches or media screenings.

In the context of the author's study, these tools allow the bank to identify their higher and lower risk clients. Higher risk clients amount to a greater reputational risk exposure for the institution due to activities and dealings which these customers might undertake. Business activities,

⁴⁰ The Reputation Institute was launched in 1999 and assists in helping international firms build credibility. Clients of the institute include KLM, Total and HSBC (The Reputation Institute, 2019).

ownership structure, amount and type of transactions conducted and transactions in higher-risk dominions can all lead to the institution ranking the client as a higher risk client (Swanepoel, et al., 2017:319). Identifying these clients within the banking sector is important as they can present a greater risk of being involved in money laundering or terrorism financing (Swanepoel, et al., 2017:319). The higher risk clients may also have relationships with politically exposed people that can result in high-risk transactions occurring that are politically motivated. Being associated with clients like this can result in penalties and a negative reputation for the bank.

The template for the “who” aspect makes use of four categories to be assessed: know your client, source of wealth, client intent and ultimate beneficial owner (Swanepoel, et al., 2017:322). These four categories are measured according to a five-point scale⁴¹. Know your client looks at possible controversial clients; source of wealth considers where the wealth of the client comes from – corruption, gambling or other possible criminal activities; client intent considers attributes such as tax avoidance; ultimate beneficiary owner looks at who will finally receive the wealth or assets once the original client has passed away. All four of these categories are interlinked – if a depositor’s money is stolen, the value of the money of the banks’ balance sheet will be forfeited, resulting in reputational damage to the bank (De Smet & Mention, 2011 cited in Swanepoel, et al., 2017:322). According to the model template used to assess the “who” aspect, each business unit in the business needs to evaluate their clients and who those clients are conducting business with for the whole business to be protected against reputational damage.

⁴¹ 1 indicates a low risk, 2 a low-medium risk, 3 medium risk, 4 medium-high risk and 5 high risk (Swanepoel, et al., 2017:322).

<i>Control deficiencies</i>				
	Know Your Client (KYC)	Source of Wealth	Client Intent	Ultimate beneficial owner
Business Unit 1				
Business Unit 2				
Business Unit 3				

Table 1: Template of "who" assessment. Source: Swanepoel et al (2017:323)

3.2.2 "Where"

The "where" aspect of the original four-point matrix considers the location of the client's residence and where they trade/do business (Swanepoel, et al., 2017:319). This is an imperative aspect for the authors as tax havens, offshore tax abuse and ineffective anti-money laundering laws are of utmost concern to financial institutions. Not only do these issues effect tax fairness but legal compliance issues too. Lost tax revenue can contribute to a country's annual deficit, thereby negatively affecting its economic strength and economic indicators. Money laundering also often covers up the primary source of profits of crime (Swanepoel, et al., 2017:320).

According to Swanepoel et al. (2017:320), a bank should be based in a country that has high economic strength, political stability and low levels of secrecy. The quality of jurisdiction of a financial centre need to be high, as should international compliance, for the location to not pose a negative reputational risk to the bank. The matrix template used to assess the "where" aspect is made up of seven individual factors: location, tax, operational costs, quality⁴², regulatory compliance⁴³, track record and ease of doing business (Swanepoel, et al., 2017:323). These

⁴² In their analysis, the authors looked at economic strength driving standards of quality (GDP/capita), access to skills and resources, political stability of jurisdiction (World Bank governance indicators), actual and perceived secrecy (financial secrecy index) and global ranking as a financial centre (global financial centre index) (Swanepoel, et al., 2017:328).

⁴³ Under compliance, the authors looked at Anti-Money Laundering (AML) compliance in association with the Organisation for Economic Co-Operation and Development (OECD) and Financial Action Task Force (FATF)

factors are measured according to the jurisdiction (country) where the business is located. In the case of this study, the jurisdiction is South Sudan and Zambia, respectively. The categories will measure the reputational risk to the Chinese companies operating in these jurisdictions. This study's template measures according to a five-point scale, but it is measured inversely of the other templates⁴⁴.

<i>Differentiating proposition As a jurisdiction to clients in Africa</i>	
Location	
Tax	
Operational Costs	
Quality	
Regulatory Compliance	
Track Record	
Ease of doing business	

Table 2: Template of “where” assessment. Source: Swanepoel et al (2017:323)

3.2.3 “What”

In today's world, the “ethical obligations” of the sellers and providers of products and services, including financial, are under great public debate, lobbying and scrutiny (Swanepoel, et al., 2017:320). In the financial field, these services can refer to the purchase, selling or dealing of investment bonds, stocks, cash, mutual funds or other products. These services are sold through means of investment advice which is seen as decision-making under uncertainty (Swanepoel, et al., 2017:320). As seen in chapter two, political risk analysis also makes use of decision-making theory, specifically focusing on offering decision-making assistance under uncertain circumstances. For the decision-making to occur for investment advice to be realised, the personal attributes of the client must be observed and understood.

Under the template used to assess the “what” Swanepoel et al, consider the appropriateness of the bank's products; the social purpose and the nature of the products will be looked at. The

standards, double tax treaty status, information sharing status and compliance with the Foreign Account Tax Compliance Act (FACTA) (Swanepoel, et al., 2017:328)

⁴⁴ 5 indicates low risk, 4 medium risk, 3 medium risk, 2 medium-high risk and 1 high risk (Swanepoel, et al., 2017:323).

social purpose assessment includes the commercial purpose and the suitability of the service. The nature of the services considers whether it is within the bank’s capability and whether the product fits in with international regulation expectations (Swanepoel, et al., 2017:324).

<i>Focus Area</i>	<i>Findings/Assessment</i>	<i>Potential risk area</i>	<i>Risk level</i>
Products			
Suitability of products given client’s risk profile, objectives, mandate and level of sophistication			
Products and services in line with regulators’ expectations			
Are products and services within the bank’s capability to appropriately recommend, monitor and manage?			
Commercial purpose of products and services			

Table 3: Template of “what” assessment. Source: Swanepoel et al (2017:324)

3.2.4 “How”

The “how” aspect refers to how business is conducted within the institution and with the clients themselves – in essence, the way the products and services are being delivered. According to Swanepoel et al. (2017:321) greed, self-interest and profit maximisation can add to ethical misconduct within the business or institution. On the other hand, a client is paying for services being provided by the business and therefore has the right to full loyalty and transparency from the business. Any conflict of interest between the provider and client should be avoided; there should be equal treatment and no bias shown due to personal relationships, beliefs or other types of compensation (Swanepoel, et al., 2017:321). Furthermore, all illegal or unethical behaviour or activities should be discouraged by both the client and business. Risk and reward should also be offered to the client as accurately as possible, fully allowing them to make a sensible decision regarding their personal transactions, never compromising secrecy for personal gain.

The matrix template of the “how” category is subdivided into two categories – business practices and the systems and tools of the bank (Swanepoel, et al., 2017:324). The focus areas of business practices are whether the bank engages in business practices that ensure

sustainability in the eyes of the stakeholders, and alignment of interests between the clients and bank. The systems and tools of the bank examine reporting actions and whether management personnel manage risk suitably within the institution.

<i>Focus Area</i>	<i>Findings/Assessment</i>	<i>Potential risk area</i>	<i>Risk level</i>
Engage in business practices that ensure sustainability from the perspective of all stakeholders			
Align interests between clients, bank, colleagues (e.g. through pricing and performance measures)			
Provide transparent, clear, accurate and timely reporting (internal and external)			
Management insurance that is adequate to manage risks appropriately and in a timely manner			

Table 4: Template of “how” assessment. Source: Swanepoel et al (2017:325)

<i>Reputational Risk Level</i>		<i>Findings</i>	<i>Risk rating</i>	<i>Overall risk rating</i>
<i>Who</i>	Know Your Client	Medium risk	3	3
	Source of Wealth	Low risk	1	
	Client intent	High risk	5	
	Ultimate Beneficiary Owner	Medium risk	3	
<i>Where</i>	Quality	4.15	1	1
	Compliance	4.2	1	
<i>What</i>	Products	Low risk	1	1.4
	Suitability	Low/ Medium risk	2	
	Expectations	Low risk	1	
	Capabilities	Low risk	1	
	Purpose	Low/Medium risk	2	
<i>How</i>	Sustainability	Low/Medium risk	2	1.5
	Interests	Low risk	1	
	Reporting	Low risk	1	
	Management Insurance	Low/Medium risk	2	

Table 5: Final four-point matrix with the author's original study results (Swanepoel et al., 2017:332)

3.3 Towards a New Reputational Risk Model

The Swanepoel et al. (2017) model provides a qualitative assessment technique for reputational risk that is for the most part suitable for this study. However, as the model was originally used for a study considering the reputational risk of a bank, certain adjustments need to be made so the model can suit not only the extractive industry but this study too.

3.3.1 “Who”

The greatest change to the original matrix model (Swanepoel, et al., 2017) falls under the “who” factor. The original model looks at who the bank is conducting business with and any risks associated with these clients. This is done by getting the individual departments - investment

managers, fund managers, wealth, insurance, stockbrokers and asset managers – to complete forms. If this factor were to follow the original model, South Sudan and Zambia would be collecting information on China and the risks of conducting business with China, which is a different study to the one being conducted here, and would be looking at the reputational risk of the company. Alternatively, this study is considering the reputational risks of the countries themselves – South Sudan and Zambia. For the “who” factor and its indicators to suit this study the inverse of the original model will be done - Chinese companies will be considering the risks of operating within South Sudan and Zambia and not the other way around as is done in the original model.

Understanding the government (“who”) you are dealing with in these business ventures is assuredly important. If a government is partaking in human rights violations or corrupt practices with the money the firm is parting with for their products, the firm is exposed to reputational risks. The source of wealth of these governments should not be controversial, neither should their intent with the wealth be. A poor intent with wealth can lead to grievances from citizens that manifest into civil unrest or public protests.

Another change that will occur under the “who” factor is the elimination of the ultimate beneficial owner indicator as it is specific to the banking sector and there is not a beneficiary of assets in the extractive industry. The other indicators will remain under the “who” factor as will their measurement guidelines⁴⁵.

<i>Control deficiencies</i>			
	Know Your Client	Source of Wealth	Client Intent
South Sudan			
Zambia			

Table 6: Revised template of “who” assessment

⁴⁵ Refer to section 3.2.1 for the measurement guidelines as set out by Swanepoel et al. (2017).

3.3.2 “Where”

It is argued by Alon et al. (2006:631) that 21st century investors in the oil and gas (extractive) industries are swayed by risk of wars and external threats, taxation systems, terrorism, civil and labour unrest, corruption, government regulations, repatriation restriction, political instability, energy vulnerability and environmental activism. Control Risks (cited in Boshoff, 2010:52) also identifies four main risk factors for the extraction industry: politics and governance, security, reputation and social issues, and infrastructure and health. Oil drilling and exploration is also not solely determined by the geology of a country; factors connected to institutional quality and governance of the sector are also reasonably important (Cust & Harding, 2013:3). The same can be said for mining, as it is also an extractive activity.

The World Bank Group (2019) defines regulatory quality as the “perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development”. The regulatory compliance by government therefore plays an integral role in promoting a good reputation for companies wanting to invest in any given foreign country. Abdalla et al. (2013:3) specify that there is indeed a lack of literature on whether regulatory frameworks in countries, such as South Sudan, encourage oil and gas companies to pursue environmentally and socially responsible practices, hence the importance of this indicator and why it must remain in the updated model.

Many of the indicators used under “where” in the original matrix are not necessary when moulding the model to suit this study. Tax is often included under regulatory compliance while operational costs, quality, track record and ease of doing business would be considered under other sections of a full risk assessment - reputational risk merely makes up one aspect of a full risk assessment. The inclusion of tax under regulatory compliance, and the multiple factors that are taken into consideration for this indicator, is the reasoning behind the renaming of the model aspect to regulatory environment for the analyses to come later in this study. The original model ranks these indicators inversely from the rest, with 1 being high risk and 5 being low risk. For simplicity and easy-to-follow data, this indicator for the new model will fall in line with the others and remain with 5 being high risk and 1 being low risk. This allows for a final evaluation to be scored out of 50.

<i>Differentiating proposition As a jurisdiction to clients in Africa</i>	
Location	
Regulatory Compliance	

Table 7: Revised Template for “where” assessment

3.3.3 “What”

The “what” factor refers to the services that the bank is selling. In the context of this study, the banks are South Sudan and Zambia. The products that they are selling are oil and copper, respectively. These are two products that are heavily regulated by the ruling government through legislation in order to keep some form of control over their natural resources, and is also due to the national patrimony that is attached to natural resources. Most of the original model is suitable to this study however; one elimination should be made. The indicator of suitability of products given a client’s risk profile, objectives, mandate and level of sophistication will be eliminated for this study. This indicator again focuses on the client, in this study the Chinese companies, which are not the focus of this study – the countries and their products are the focus under the “what” factor. Products and services being in line with the regulators’ expectations is also eliminated from this factor. The regulators’ in this case are South Sudan and Zambia; including this indicator would change the focus of the study to their expectations when it is in fact focused on China’s expectations.

<i>Focus Area</i>	<i>Findings/Assessment</i>	<i>Potential risk area</i>	<i>Risk level</i>
Products			
Are products and services within the “bank’s” capability to appropriately recommend, monitor and manage?			
Commercial purpose of products and services			

Table 8: Revised Template for “what” assessment

3.3.4 “How”

The “how” factor is an important one for firms to look at when engaging in business ventures with new countries and partners. How the other party involved in the business deals conducts

themselves and parts with their products can affect the reputation of the firm. For this study, the other parties involved in the business deals are South Sudan and Zambia. Being associated with a country that partakes in poor or corrupt business practices can easily damage a firm's reputation and further project the reputation that the firm is willing to look past these discrepancies in the future.

The indicator pertaining to the alignment of interests between clients, bank, colleagues (e.g. through pricing and performance measures) is the only indicator eliminated for the revised model. This indicator is not appropriate as the parties involved have different interests and motives for conducting business. The Chinese companies' interests are aligned with gaining natural resources, while South Sudan and Zambia are interested in gaining profits and boosting their economies. Pricing and performance measures are also not measurement tools that are used for the extractive industry and is specific to the banking sector. Furthermore, in the extraction deals between Chinese companies and South Sudan or Zambia, there are no other "colleagues" involved, as workers from either the host or home country are used and the deals are conducted directly between the company and the country, with no involvement of third party members.

Business practices that ensure sustainability from the perspective of all stakeholders is a key indicator in the "how" factor. As previously established, stakeholders and their perception of the firm are key to the long-term success of the business and its operations. Sustainable business practices refer to more than purely sustainable environmental practices; examples that will be looked at include technological, social and organisational features. Factors include creating value from waste, renewable and natural processes use, energy efficiency, encouraging sufficiency, functionality, developing scale-up solutions and repurposing for society and the environment (Bocken, Short & Evans, 2014:48). Business practices must be socially responsible, economically feasible and environmentally friendly in order to be sustainable (both environmentally and socially), not only one of these aspects. This may differ from the original model's idea of sustainable business practices, where the unit of analysis is a bank, but should remain as it is a good indicator for companies operational in the extractive industry. Social and environmental responsibility are two great sources of reputational risk, while economic feasibility is important for the long-term success of a company operational in the industry.

Transparent, clear, accurate and timely reporting is also key to maintaining a good reputation and keeping reputational risk low. If there are non-transparent or corrupt reporting that occurs, the firms involved are placed at risk of damaging their reputation through association with these business practices. Management insurance is therefore important for the management of any business in order to cover risks that they may be exposed to; this is especially important for businesses involved in the extractive industry. Management insurance comes from within the business and not from the host country where business is being conducted. Therefore, management insurance is an indicator that is not appropriate for this study.

<i>Focus Area</i>	<i>Findings/Assessment</i>	<i>Potential risk area</i>	<i>Risk level</i>
Engage in business practices that ensure sustainability from the perspective of all stakeholders			
Provide transparent, clear, accurate and timely reporting (internal and external)			

Table 9: Revised Template for “how” assessment

3.4 Conclusion

This chapter was set out to achieve two goals. The first goal was to introduce and allow for an in-depth analysis of the original model designed by Swanepoel et al. (2017). The second goal of this chapter was to indicate the changes made to the original model, why these changes have taken place, and to present the final model that will be used for this study. The conceptualisation of political risks analysis presented in chapter two offers insight into why the Swanepoel et al. (2017) model is suitable as a basis for this study. There are shared common indicators between the four-point model and many other political risk models, as well as a qualitative approach, which the preferred approach for political risk analysis. Furthermore, hard and soft factors can be identified under the Swanepoel et al. (2017) model and, as indicated by Boshoff (2010), a combination of these factors is desirable for the best possible analysis to take place.

Certain indicators from the original model have either been combined, as in the case of the “where” factor or eliminated completely as they are not required for this study. The main difference in the models is under the “who” aspect and inverting the assessment – looking at the countries and not at the firms. As mentioned, this falls under a different study. The four-

point model has also been adjusted accordingly to suit the extractive industry. This model will now be used to measure South Sudan's reputational risk in chapter four and Zambia's reputational risk in chapter five, focusing on their extractive industries and Chinese operations therein.

Chapter 4: Reputational Risk Analysis of CNPC in South Sudan

4.1 Introduction

South Sudan's history, both the distant past and current events, is a complex one. South Sudan is the youngest African country, having only gained independence from Sudan in 2011 (Abdalla, et al., 2013:2). Despite gaining independence, the country has experienced turmoil, conflict and many struggles in the attempt to achieve peace. South Sudan is certainly not an ideal investment climate for companies and has recently seen many Western companies flee due to sanctions and human rights violations. Companies conducting business in South Sudan were concerned with many issues, amongst those, their reputation. This fleeting history and the current struggles facing the country are the primary reasons that South Sudan maintains an extreme political risk rating⁴⁶ and a high-security risk rating⁴⁷ (Control Risks, 2019).

Despite the history and complex problems facing the country, South Sudan does retain investments from countries including China, Malaysia and India for one reason: oil. South Sudan has the seventh greatest natural oil reserves in Africa and twenty-eighth in the world (African Development Bank Group, 2018:10). South Sudan currently faces political and civil insecurity, security challenges, poor economic and social infrastructures, a lack of political will and governance issues. Additionally, the country faces an overreliance on its oil industry for revenue, exports and Gross Domestic Product (GDP) (African Development Bank Group, 2018:1). The high reputational risk associated with investing in South Sudan prevents further exploration projects from being pursued by other investors aside from China, Malaysia and India. The CNPC is the greatest investor in South Sudan's oil industry, holding approximately 86% of shares (African Development Bank Group, 2018:6). This notion will be explored throughout this chapter, by completing a full reputational risk analysis of South Sudan's oil sector from the CNPC's perspective.

⁴⁶ Control Risks (2019) looks at the prospect of government interference and political instability, and the possible effect these two issues can have on the business environment in which a company operates. Their political risk assessment looks at general political stability, policy, corruption, reputational risk, expropriation, contract intervention, international sanctions and sovereign debt.

⁴⁷ Security risk considers the financial, physical and human assets of a company. Furthermore, the ability and disposition of the countries security forces to protect the company's assets and personnel is evaluated (Control Risks, 2019).

4.2 Where did South Sudan come from?

Conflict and South Sudan are inextricably linked; to understand this, the history of how South Sudan came into existence eight years ago needs to be explained⁴⁸. For centuries, racial and religious relations have been tense in the East-Central area of the African continent, specifically Sudan and its neighbours – issues such as language and diffusion of cultures have always been at the centre of the conflict. Tensions have often revolved around the Arab-Muslim North and the African and Christian South with multiple civil wars⁴⁹ breaking out (African Development Bank Group, 2018:5). The division between Sudan and South Sudan can be traced as far back as 1930. During British colonial rule, policy was ordered in which southern Sudan was administered independently from the north (Kumsa, 2017:516). This was done to develop South Sudan as a Christian, English state with an English-based education system. Sudan was declared an independent state in 1953 and held its first general elections that same year; politicians in the south continued to rally supporters in the hopes of creating a federal democratic state that would be separate from Sudan. Continuous pressure for federalization led to the government handing power over to the military in 1958, thereby establishing the longest period of military rule in the country's history (Kumsa, 2017:518).

The South Sudan Liberation Front formed in retaliation to the military government and continuously fought to become an independent state in the south areas of Sudan. Continued religious and ethno-racial tensions led to the emergence of the Sudanese People's Liberation Movement (SPLM), a political organisation that has a military wing known as the Sudan People's Liberation Army (SPLA) (Kumsa, 2017:520). SPLM was formed in 1983 and by 1990 the movement controlled most of southern Sudan. Confrontations between the SPLA and the Sudanese army started in May 1983; neighbouring countries – Ethiopia, Eritrea and Uganda – all entered the conflict in support of SPLM in 1998.

The end of the second civil war saw the signing of the Comprehensive Peace Agreement (CPA) in 2005⁵⁰. Oil and revenues from oil were a contested subject in the agreement, which had two main principles: South Sudan's right to self-determination, and a separation of state and

⁴⁸ For a map of South Sudan please refer to Appendix B.

⁴⁹ The first civil war took place from 1955-1972, known as Anya-Nya I. A second civil war broke out in 1983, lasting until 2005, known as Anya-Nya II.

⁵⁰ In the CPA, it was estimated that nearly two million people had died as a result of the 18-year civil war, due to either direct violence, starvation or disease related to the conflict. Half a million refugees had to move into neighbouring countries and over four million people were displaced during the civil war (Kumsa, 2017:521).

religion according to the legal systems permitting both Islam/Shari'a and Christian/secular traditions (Kumsa, 2017:521). The people of southern Sudan were given five years of self-rule and the right to hold a referendum on whether southern Sudan should remain part of Sudan. January 2011 saw 99% of the population vote in favour of independence and in July 2011, the Republic of South Sudan became the world's youngest country (African Development Bank Group, 2018:6). Independence resulted in South Sudan gaining control of three-quarters of Sudan's oil reserves. In December 2013, South Sudan witnessed the outbreak of yet another civil war, with violence erupting between the two largest ethnic groups in South Sudan – the Dinka ethnic group and the Nuer ethnic group (Council on Foreign Relations, 2019). A cease fire was negotiated at the end of 2018; however, continued attacks and violations have continuously occurred. The situation is ongoing in South Sudan with complete peace not having been achieved yet⁵¹. CNPC's role and investment in South Sudan will be explored next, demonstrating why an analysis has been done on this company.

4.2.1 CNPC in South Sudan

Drilling for oil dates back to the 1960s and 1970s in Sudan, but production only began in the 1990s (Cust & Harding, 2013:12). CNPC first entered South Sudan in 1995, 15 years before independence was achieved. During the first 10 years of engagement, Sudan had a large influence on the company as it was one of CNPC's first key international ventures (Patey, 2013:2). CNPC could enter Sudan with relative ease in 1995 as the country was facing international sanctions from the USA, creating limited competition from other major oil companies from the USA and Europe⁵². Most Western companies stayed away from these investment opportunities, not only because of pressure from home governments, but further allegations of human rights abuses also put too much at stake for these companies, their business ventures and their reputations (du Toit, 2013:15).

The country's oil reserves became an important production source for CNPC and created ample revenues and profits. The signing of the CPA in 2005 changed the relationship between CNPC and Sudan; after it was signed, Sudan became a restriction on CNPC's operations and not a

⁵¹ As mentioned in this study's limitations section, due to the ongoing situation in South Sudan, information will be considered until July of 2019 for this study.

⁵² The USA introduced sanctions in 1997. The sanctions included a trade embargo and freezing of Government assets (Cust & Harding, 2013:12). The sanctions were expanded in April 2006 and came to an end in 2011.

vehicle of growth. This was due to consequences of reputational, security and political risks – risks that had become the norm facing companies operational in Sudan.

After South Sudan achieved independence in 2011, the CNPC led a consortium with Malaysia's Petronas and India's Oil and Gas Corporation (Vasselier, 2016:15)⁵³. The new economic opportunity that presented itself resulted in increased investment and an increased number of Chinese nationals moving to work in South Sudan⁵⁴. However, this optimism did not last long; after an eruption of violence in December 2013⁵⁵, CNPC had to reduce and reconsider their plans for exploration in the country. The South Sudanese government also closed most of the oil fields due to violence during this time. In 2016, China was importing 46% of South Sudan's oil via Port Sudan in the Republic of Sudan (Vasselier, 2016:15). CNPC had not, by this point, restarted exploration for new fields or construction of new pipelines in South Sudan.

CNPC has increased community relations with South Sudan, specifically in the capital Juba; CNPC funded the building of the Protection of Civilians Camp 3 and assisted in rebuilding the Juba airport after the civil war. The company also used funds to build a new computer lab at Juba University, whilst offering scholarship opportunities to students (Anthony & Hengkun, 2014:88). Despite these contributions, the South Sudanese citizenry does not hold the best perception of CNPC. This will be expanded upon under Know Your Client, as will the various risks presented by this factor. The rest of the reputational risk analysis of CNPC in South Sudan will follow on from this.

4.3 Reputational Risk Analysis of South Sudan

A reputational risk analysis will now be conducted for CNPC business ventures in South Sudan. The risks that CNPC has taken to remain in South Sudan, and the rewards it is hoping to reap, can be seen through an exploration of their involvement in South Sudan. CNPC is also the largest MNC operating in South Sudan with the most to lose if anything goes wrong. South

⁵³ Nile Petroleum Corporation (Nilepet) is the only state company involved in the South Sudan oil industry, however it only holds minority shares in production due to low technical expertise and financial backing (African Development Bank Group, 2018:6).

⁵⁴ In 2016, seven thousand Chinese nationals were working in South Sudan and more than fifty Chinese companies were operational (Vasselier, 2016:15).

⁵⁵ Conflict broke out over internal SPLM leadership issues (African Development Bank Group, 2018:10). The civil war lasted into 2018, with a peace agreement being signed in August 2018; the peace is still fragile.

Sudan's infancy as a country makes data collection a challenge, with sources such as the Fraser Institute's Economic Freedom Map not including a score or ranking for South Sudan. The qualitative data that is available must be analysed to contribute to the ratings given in this chapter. As discussed in chapter three, every risk factor has multiple indicators which will be rated accordingly out of five points, and justification for these ratings will be provided. Finally, an overall rating out of fifty points will be presented to indicate whether South Sudan is a high-, medium- or low-risk investment opportunity from a reputational risk analysis perspective.

4.3.1 Who

4.3.1.1 Know Your Client

Historically, South Sudanese relations with China have been decent, with the South Sudanese government often expressing thanks to China for maintaining investment in their oil fields. At the time of independence, CNPC stood a chance of losing their contracts and having to cease operations in South Sudan. The new government had an anti-Chinese sentiment as it believed that CNPC had been supporting Khartoum, the opposition, during the civil war (du Toit, 2013:15). Despite these feelings, CNPC's contracts were renewed, a positive indicator for the relationship between CNPC and the South Sudanese government. The government insisted that CNPC build offices in Juba, something that CNPC agreed to do (Anthony & Hengkun, 2014:80). This was a sign of goodwill between the two actors.

Despite a comfortable history, the relationship has changed since 2016, when two Chinese peacekeepers were killed in Juba (Vasselier, 2016:15). Several other peacekeepers were wounded and the embassy was evacuated. Continued social tensions and economic downturn have since seen a rise, with South Sudanese citizens being unhappy with Chinese citizens currently working in South Sudan. Small-traders, shop owners and other industry entrepreneurs have all moved to South Sudan, increasing the Chinese population outside of the oil industry (Anthony & Hengkun, 2014:80). Due to negative sentiments stemming from South Sudan's public and government's opinion of CNPC, all Chinese citizens and companies are placed at an increased risk. The Minister of Finance at the time of independence, David Athorbei, added further fuel to the fire by characterizing CNPC as exploitative of South Sudan's resources (Vasselier, 2016:15).

After the break out of the civil war in 2013, further pressure was added to the Chinese government and Chinese businesses as the Chinese government appeared to be supporting the Dinka SPLM, an opponent of the rebels. After this information reached the rebels, violence

escalated massively and 400 Chinese oilfield workers had to be evacuated out of Bentiu and Malakal by the South Sudanese army for security reasons (Vasselier, 2016:17). 2015 saw further clashes between the warring South Sudanese and Sudanese parties in the oil fields, where Chinese workers are stationed (MVO Nederland, 2019)⁵⁶.

The anti-Chinese sentiment that is strongly presented in some African countries is not the case in South Sudan but there are hints of it. Some of the African anti-Chinese sentiment also stems from the way in which China presents its support for certain parties or people. This is not a reputational risk that stems from South Sudan, but rather China.

Risk Rating: 3 (Medium risk)

4.3.1.2 Source of Wealth

South Sudan is the world's most oil-dependent economy with 60% of its GDP being created by oil (The World Bank, 2019). Government revenue in South Sudan is nearly entirely created by oil, equating to 90%, with 95% of the country's total exports being oil (African Development Bank Group, 2018:1). In January 2014, oil production was at 163 000 barrels per day, creating revenue of approximately \$20 million monthly. By 2019, this figure had reached 180 000 barrels per day (Dumo, 2019). South Sudan's greatest source of wealth is its oil fields, although they were controversially gained through independence from Sudan.

This overreliance on oil as a source of wealth has created constant issues for South Sudan and the companies operating in the oil industry in the country. Dependence on a single export commodity can expose the economy to shocks stemming from changes in world prices, global demand, domestic insecurities and fluctuations in oil production (African Development Bank Group, 2018:10; du Toit, 2013:9). South Sudan has been subjected to frequent disruptions in oil production due to various reasons. 2012 saw conflict between South Sudan and Sudan shut down oil production, as a result of a dispute over sharing of oil revenues, and South Sudan failing to pay transport fees to Sudan, leading to an economic downturn of 51.5%. Not only did South Sudan suffer, but CNPC also experienced a significant revenue loss (Patey, 2013:3). As previously mentioned, CNPC is the majority shareholder and investor in South Sudan, contributing much to its wealth. Further investment in the country from other companies has been low due to the volatile environment. This is evident from Total's actions, who has been in possession of a license to conduct oil exploration and operations in what is now South Sudan,

⁵⁶ MVO Nederland runs the Corporate Social Responsibility (CSR) Risk Check, an assessment tool useful to organisations and companies looking to operate abroad.

since 1979. They suspended operations in 1985 after the eruption of violence during the civil war. In 2012, the company announced that it would be restarting operations and exploration however activity is yet to restart (Cust & Harding, 2013:14).

The 2012 conflict was resolved when South Sudan agreed to pay an SD 9,10⁵⁷ per barrel in transit fees to Sudan and US\$15 a barrel under the Transitional Financial Arrangement (African Development Bank Group, 2018:10). Further eruptions of violence from 2013 onwards stemming again from civil war have resulted in oil production remaining low and therefore profitability of any companies in South Sudanese oil fields remaining low.

Additionally, South Sudan maintains a negative current account balance. South Sudan is a net borrower and depends greatly on aid from other countries; over US\$4 billion in aid has been sent to South Sudan at the time of writing, with very little to show for the donor's resources (African Development Bank Group, 2018:16). However, most of this aid has gone to benefit the government in the capital city of Juba. Government checkpoints are often used as extortion sites of funds from agencies that are transporting humanitarian aid goods and government fees to attain work permits are unreasonably high (African Development Bank Group, 2018:19). In addition to this corruption, rent seeking⁵⁸ is also extreme in South Sudan, massively occurring in state institutions, creating another questionable source of wealth for the government. Black market rent-seeking has been apparent through gains in currency exchange, oil subsidies and land-raiding rights being traded for military alliances (African Development Bank Group, 2018:9).

The Chinese government pressurises Chinese firms to maintain a clean bill when it comes to any forms of bribery or corruption. CNCP is a state-owned enterprise and therefore, the Chinese government is a stakeholder. The trust and opinion of this stakeholder are vital to CNPC's reputation. Interviewees in Han et al (2017:133) stated that the South Sudanese police and the judiciary have great discretion and are tough towards foreign investors – fees and fines can be levied to them for “different reasons whenever they want”. This can be interpreted as corruption if reasons for the fees and fines are not given.

⁵⁷ The currency of Sudan and South Sudan is the Sudanese Pound – represented as SD.

⁵⁸ Rent seeking is when an individual or an entity (like the state) wants to increase their wealth without creating benefits for society. Rent seeking does not encourage productivity in the economy. The manipulation of the sharing of economic resources is how rent seeking occurs (Corporate Finance Institute, 2019).

The sources of South Sudanese wealth present reputational risks to the companies operating in the country, especially CNPC, being a major shareholder and investor. The violent events of 2012 that caused the shutdown in production and exports not only shows the fragility of the oil extraction and production industry, but also the risks to companies operating in the industry. By operating in a country where countrywide shutdowns and low levels of production may occur due to volatility, disagreements and violence are indeed called into the decision-making process by a company's board and their area-based operational reasonings must be clear. Furthermore, choosing to remain in a country where humanitarian aid is extorted to benefit the government can greatly harm a company's reputation. The corruption that is widespread in South Sudan also incredibly increased the reputational risk of the CNPC, as one of their main stakeholders is their own government.

Risk Rating: 5 (high risk)

4.3.1.3 Intent with Wealth

South Sudan's intent with wealth is, in the least, debatable. The government's budget's main emphasis is on security spending, with 58% of total government spending being on the national security workforce. During the oil shutdown in 2012, the SPLA had over 230 000 soldiers with an additional 80 000 men and women in police, prison and wildlife security sections (African Development Bank Group, 2018:14). Military expenditure averaged US\$516 million from 2006-2018; to contrast this spending, expenditure on health and education is roughly 6% of total government spending (World Bank Group, 2018). South Sudan is home to the largest humanitarian crisis spill over in the world, making the financing priority on military resources a questionable decision. Furthermore, as mentioned under the previous section on source of wealth, humanitarian aid is often used to benefit the South Sudanese government and not for the intended purposes. This also presents an argument for poor wealth management, and bad intentions of use wealth that is given to the country through international aid.

The wealth created by oil in South Sudan is also poorly managed, with most oil-based revenue being placed in poorly managed and supervised South Sudanese bank accounts (Vasselier, 2016:16). According to Transparency International (2018), South Sudan is ranked 178/180 countries on the Corruption Perceptions Index (CPI) with an overall score of 13/100⁵⁹. The average score for all countries in 2018 was 43/100 (Transparency International, 2018). South

⁵⁹ The CPI ranks 180 countries according to their perceived levels of public sector corruption. The scale is 1-100 with 0 representing highly corrupt and 100 very clean (Transparency International, 2018).

Sudan is continuously rated as one of the most corrupt countries in the world, which is an indication of poor institutions and poor leaders in positions of power where extensive theft and corruption by government officials occurs (Cust & Harding, 2013:14). The African Development Bank (2018:9) agrees with this notion of poor management, stating that political elites consistently divert state resources into their own hands. Government officials have diverted over US\$4 billion, approximately one-third of all oil revenues from 2005-2011, with no actions taken to prosecute them as legal and anti-corruption systems are weak in South Sudan⁶⁰.

GAN Integrity⁶¹ (2016) stated that South Sudan had still not signed any anti-corruption conventions, even after the realisation of existing government-based corruption; there is no supporting evidence that they have since Gan Integrity's report in 2016. More recently, South Sudan scored a 50/100 for anti-corruption mechanisms on the Africa Integrity Indicators map, which shows that the country is attempting to eradicate the phenomenon (Global Integrity, 2019). On the percentile ranking of the Worldwide Governance Indicators, South Sudan ranks at 1% for control of corruption and 0% for government effectiveness (World Bank Group, 2019). These are some of the figures that contribute to South Sudan's ranking for this indicator.

South Sudan experiences extreme corruption levels, poor management of oil revenues and humanitarian aid, and high military expenditure. This results in limited community development and service delivery capacities as no funds are made available for these issues. CNPC is exposing themselves to corrupt practices and individuals by operating in South Sudan, making it possible for shareholders and the public to associate them with corruption. This creates a negative perception of the company and therefore, a negative reputation. The mismanagement of funds and financing priorities in South Sudan also opens the company up to negative perceptions, as the mismanagement of funds is public information. Most of the South Sudanese population does not get to share in the benefits of the oil revenues although economic growth is spurred by the oil industry. This can increase political grievances towards the government, possibly resulting in civil violence or further instability (du Toit, 2013:9). This instability inherently increases the risks the company exposes itself to.

Risk Rating: 4 (medium-high risk)

⁶⁰ In 2012, President Kiir fired all ministers to try end the corruption plaguing the country, however, this action left the country without a cabinet for 10 days (African Development Bank Group , 2018:9).

⁶¹ GAN Integrity is a global business anti-corruption portal.

4.3.2 Where

4.3.2.1 Location

South Sudan is in East-Central Africa. The country is neighboured by Sudan, Central African Republic, Democratic Republic of Congo (DRC), Uganda, Kenya and Ethiopia. These neighbours all maintain ratings of medium to extreme political risk, with Central African Republic rating extreme, Sudan high and DRC high (Control Risks, 2019). Security risks from these countries further rate from medium to high.

South Sudan gained 75% of Sudan's oil reserves when gaining independence, although the country is completely landlocked. South Sudan is therefore reliant on Sudan's oil export pipelines and ports (African Development Bank Group, 2018:1). The 2012 shutdown of oil production as a result of conflict between the two countries, and South Sudan's reliance on Sudan's location on the Red Sea, makes the country more vulnerable to any decisions or changes Sudan makes. The border between the two countries is still not completely defined and areas along the border are still under dispute; many oil fields are located in contested border areas between Sudan and South Sudan. The agreement signed on the oil transport fees also addressed a fourteen-mile area of dispute, located on the border of Southern and Eastern Darfur (North Sudan) and Western and Northern Bahr al (South Sudan) (African Development Bank Group, 2018:8). Unfortunately, South Sudan did backtrack on this agreement⁶² leaving the area under dispute to this day. This means that some oil fields are still contested but most of the oil fields are under South Sudan's control. Some of the regions may be under South Sudan's territory, however it does not mean government exerts complete control in these areas. There are still significant oil regions where the South Sudanese government does not exert clear control (Anthony & Hengkun, 2014:82). These areas are controlled to a larger extent by SPLA, which is not a government entity. At times of conflict, it is not the South Sudanese army that will evacuate CNPC workers and officials, but rather SPLA solidiers. This forces CNPC to play the safety of their employees in the hands of an organisation that does not belong or have ties to the government or any official entity.

The location of South Sudan places CNPC in a position of reliance on Sudan's transit system, which makes the company especially vulnerable to conflict and disputes between the two countries, as was seen in 2012. Since this conflict, there has been an agreement put into place

⁶² South Sudan reneged on the agreement due to pressure from local elites, whose pressure the presidency required before approving and implementing the agreement (African Development Bank Group, 2018:8).

to prevent any future disputes regarding oil transit systems; it is in the best interest of both countries to maintain this agreement. Although South Sudan is surrounded by high-risk countries, nothing has occurred in recent years that would pose reputational risks to CNPC. It is in the areas of South Sudan that the government does not exert control where reputational risks arise for CNPC. The ongoing contention of oil fields also increases security risks, which is a great source of reputational risk for the company.

Risk Rating: 3 (Medium risk)

4.3.2.2 Regulatory Environment

A major shortcoming of firms, including CNPC, is that they have limited knowledge about the legal and regulatory environment of the foreign countries in which they choose to operate (du Toit, 2013:14). This lack of knowledge may increase reputational risk exposure as any problems would be made public; in today's globalized world, information travels faster than what MNCs would want. Many African countries, South Sudan included, have poorly developed institutional and regulatory environments⁶³ (Abdalla, et al., 2013:4; Han, et al., 2017:130). A volatile and poorly imposed regulatory environment can subject Chinese MNC's, like CNPC, to unreliable interpretations of regulations (Han, et al., 2017:133). This makes understanding the reputational risks stemming from the legal and regulatory environment of importance to companies. Most regulations in country's regarding the oil sector are written in order to protect their resources and their environment. As has been shown through multiple reputational risk disasters, the environment is a topic that holds major reputational risk globally; not adhering the environmental regulations, or doing a poor job of practicing them, can lead to great public dissatisfaction and pressure from shareholder groups.

The following legislations discussed in this section were part of the CPA signed in 2005. The Sudan Interim Constitution was established and stated that these acts will be followed by Sudan as a whole (therefore, both the Republic of Sudan and South Sudan). At independence, South Sudan started the process of creating an interim constitution that was valid until 2015⁶⁴ (Cust & Harding, 2013:16). South Sudan updated the Petroleum Resources Act 1998 as the Petroleum Act 2012; despite additions of anti-corruption requirements in the act, it is still poorly enforced by government (GAN Integrity, 2016). The new act also calls for transparent

⁶³ According to the research done in Abdalla et al (2013:4), Ethiopia and Kenya are the only countries in Africa with a legal framework for strategic environmental assessments.

⁶⁴ This interim constitution has currently been adopted and is in use.

and competitive practices, yet no licensing rounds have been conducted since its implementation (Cust & Harding, 2013:21). Besides this act, South Sudan has not added in any further legislation regarding oil production and the environment. The acts and legislations regarding oil that were introduced before independence are still important to consider – as previously mentioned, it was followed by South Sudan during the period of transition to independence and CNPC was active during the establishment of most of these acts.

One of the first legislations that was introduced in Sudan regarding the environment was enacted in 1975, predating the discovery of oil; it is known as the Environmental Health Act. The act states that dumping, discharging or disposing of any substances into rivers, lakes, wells or other water sources, that may cause harm to human or animal health, is banned (Abdalla, et al., 2013:7). However, this act does not mention the oil industry specifically and has not been updated to include the oil industry since its inception. The Petroleum Resources Act was inducted in 1998 and remains as the main legislation that regulates the petroleum (oil) industry in the country. The main matters of the act pertain to the country's ownership of oil and restrictions on companies regarding exploration and production thereof. Any environmental consequences were not considered as a priority, with only a short mention of companies being required to protect the environment and prevent pollution.

The Environment Protection Act was written into legislation in 2001, in which five environmental objectives were laid out, and the Higher Council for Environment and Natural Resources (HCENR) was called to be established (Abdalla, et al., 2013:8). The HCENR was established in 1991 as the Environment and Natural Resources Supreme Council and was joined with the Ministry of Environment and Physical Development in 1995. The Ministry, and as a result the Council, still struggles today as it does not have access to funds, technical or professional capacity to carry out the responsibilities as set out in the Act. The government has not set out to rectify this as they lack the will to do so – the priority of the government is to encourage investment from foreign and local entities, not environmental protection (Abdalla, et al., 2013:9). The act also has a lack of detail in the regulations that are meant to guide the environmental requirements in different industries.

The final act that was added into environmental legislation occurred in 2005 – the Regulations for Protection of the Environment in the Petroleum Industry (Amendment) (Abdalla, et al., 2013:10). Out of all environmental legislation in the oil and gas sector, this is act is the most detailed; it must be signed by the Ministry of Petroleum on behalf of the government and the

company pursuing operations. The ministry maintains the ability to expel any company as a penalty for violations. Most large oil companies have established health, safety and environmental units along with community development units (Abdalla, et al., 2013:11). However, the regulations have not been updated and managers of health, safety and environment believe that they are not enough as this Act also has provisions that are incomplete.

The Resource Governance Index (RGI) developed by the Revenue Watch Institute is a tool created to assess oil industry policies and governance in South Sudan (Cust & Harding, 2013:20). In 2013, South Sudan ranked 50/58 countries assessed with a score of 80/100 which is a high placement due to the ambitious legal agenda the country designed surrounding its oil industry. This category does, however, only measure policy and legal setting, and does not focus on enforcement. Laws in South Sudan are not enforced, and many gaps exist in the country's legislation (GAN Integrity, 2016). Penalties are also not often applied for noncompliance of laws.

Lack of institutional⁶⁵ quality and enforcement pose high levels of reputational risk to companies, such as CNPC, wishing to be operational in South Sudan. Quality and enforcement of regulations and legislations can help determine the security and stability of investments (Cust & Harding, 2013:7). According to the World Governance Indicators (World Bank Group, 2019), South Sudan has a 2.9% rank for regulatory quality and a 1.4% rank for rule of law. It is necessary to note here that this is a risk that CNPC has mitigated against through entering into joint ventures with the government of South Sudan and other investors (du Toit, 2013:14). As mentioned previously, CNPC entered consortiums with Petronas from Malaysia, ONGC Videsh from India, Sudapet from Sudan and GNOPC. The Chinese government is still the majority shareholder with 86% ownership of CNPC.

Risk Rating: 4 (Medium-high risk)

4.3.3 What

4.3.3.1 Product

The product focused on in this section of the study is oil. As we now know, South Sudan gained 75% of oil reserves from Sudan at independence and a relatively mature oil industry. South Sudan estimated that it had 3.75 billion barrels of proven oil reserves at the time of

⁶⁵ Regulations and laws are considered under a country's institutions.

independence (African Development Bank Group, 2018:10). This places South Sudan at 28th in world capacity and 7th on the African continent. A new oil discovery was also made in South Sudan this year – the first since independence. The new field discovered contains an estimated 5.3 million barrels, with the Dar Petroleum Company⁶⁶ operating the new field (Dumo, 2019). Despite this discovery, South Sudan is yet to maximise its oil output as current output does not measure up to regulators and CNPC's expectations of the product. Oil production in South Sudan shows a downward projection, with an expected production ending in mid-2030s. The government recognizes that there is a need to increase recovery rates, discover new fields and encourage more exploration activities⁶⁷.

As was indicated and discussed in chapter two, natural resources are a part of a country's national patrimony. Being operational in the extractive industry already increases CNCP's exposure to risk greatly but operating in a country that is in a state of fragile peace and has an extreme overreliance on oil increases this risk even more. Corruption, poor governmental regulations, civil unrest/on ground opposition, political instability, environmental activism and war are common threats that face the extractive industry and CNPC faces most of these threats in South Sudan. Reputational risks are attached to these risks that CNPC is facing in South Sudan, partly due to the product that is being dealt with. Extractive industries do immediately carry higher risk than others, however being operational in a fragile states' extractive industry that depends on oil for 90% of government revenue is even riskier.

Risk Rating: 5 (High risk)

4.3.3.2 Capability to Manage Product

The capability of the South Sudanese government to manage the oil industry should be of concern to CNPC. The oil shutdown of 2012, previously discussed in this study, presented an example of how the government lacks control and capabilities. An interviewee in Han et al (2017:134) refers to how construction or exploration sites were in areas that were affected by the civil war and they cannot return to these sites for further exploration/extraction. CNPC experienced significant labour and capital costs in the cease in production (Cust & Harding, 2013:14). The civil war has exacerbated South Sudan's inability to manage its product and

⁶⁶ Dar Petroleum Company is a consortium of oil companies with CNPC being the greatest shareholder.

⁶⁷ This is something that can only be achieved when the country is considered a safer investment climate, which it is not due to the ongoing corruption and poor institutional and regulatory capability. This is, then, an indication of how risks are interconnected and influence one another.

forces CNPC to have to deal with economic and security issues (Bodetti, 2019). Not only is production severely affected by war, but safety of workers is also at risk – CNPC had to evacuate their offices in 2013, and in 2018 when 14 of their oil workers were killed. The loss of life is a huge harm to company reputation. If there was better management of the oil sector factors, this could be avoided. These incidences mentioned here also exposed CNPC's policy deficits in terms of security (Patey, 2013:3). This put CNPC's reputation at further risk.

The poor capability of the government in managing their product often leads to the company having to take on these responsibilities and engage on the ground level; although this should be done regardless, it is harder in South Sudan as oil agreements are cloudy (Moro, et al., 2014:13). The government should be responsible for managing engagement between CNPC and locals, as it is their product that is being sold, but the company's infrastructure being used for extraction and production. If the ground-level engagement goes wrong, it is seen as the company's issue, even though the government should take responsibility. Interruption of oil activities, seizing of vehicles and machinery, or other confrontational efforts are made by locals in order to pressure companies into engaging. Government authorities have a poor relationship with locals in South Sudan, especially in oil producing areas, which stems from mismanagement of the oil industry and a lack of trickledown effect to the locals. This creates grievances from the locals towards the government and CNPC.

The regulatory environment indicator also investigated the capability of the government to manage its oil sector. The government has created an ambitious agenda to help manage the sector but external factors, such as articles 52, 59, 82, 94 and 100 of the Petroleum Act (2012) still not being implemented up to two years later, contradicts these ambitions (Moro, et al., 2014:13).

South Sudan lacks the capability to manage its main product – oil. This lack of capability poses high reputational risks to CNPC; it is exposed to poor management of regulations, having to take over responsibilities of community engagement, and poor management of the sector in general that affects operations, especially during times of conflict. These poor capabilities have led to the loss of CNPC workers lives which causes great harm to the company's reputation. Shareholders can question why CNPC chooses to operate in a country where lives are placed at risk due to the host government's poor capabilities to manage their own natural resources.

Risk Rating: 5 (High risk)

4.3.3.3 Commercial Purpose of Product

South Sudan has very little commercial purpose for oil as they export most of what they produce in order to create revenue for the country. The purpose of the revenue created from the oil has been discussed under Intent with Wealth. This lack of commercial purpose, therefore, carries no reputational risks for CNPC.

Risk Rating: 1 (low risk)

4.3.4 How

4.3.4.1 Sustainable Business Practices

Sustainable business practices consider socially responsible, economically feasible and environmentally friendly aspects. Regulatory compliance covered one of these aspects in detail – looking at the regulations and laws South Sudan has in place to protect the environment from impacts caused by the oil industry. As previously indicated, the Petroleum Act, that was updated in 2012, exists and currently has mention of companies needing to prevent pollution and protect the environment. Bar this Act, South Sudan has little in the way of official laws to protect the environment. Furthermore, any laws that are in place are poorly enforced. From an environmental perspective, South Sudan does not implement sustainable business practices. The country is still focused on building its economy and doing this by all means necessary.

Moro, et al. (2014:102) conducted a study⁶⁸ of the effects of the oil industry in the Upper Nile Region in South Sudan. The report found that people were no longer able to practice agriculture in the area, soil excavation is rampant, and villages are often lost in order to make space for oil-based exploration activities. A three-year study conducted in Unity State also discovered that there is polluted groundwater due to mud that is contaminated by chemicals used in oil exploration (MVO Nederland, 2019). The water is therefore no longer safe for human consumption; this may be considered as an issue of the companies and that they are the ones at fault, however, poorly administered regulations allow companies to pursue exploration. These are not sustainable business practices on behalf of the government of South Sudan and are crucial to consider as it is often the company that is considered the “bad guy” and their reputation that is harmed. There is responsibility on both sides – the host government (South Sudan) and the excavation company (CNPC).

⁶⁸ The study was done under the European Coalition on Oil in Sudan (and now South Sudan). The Coalition conducted the study in collaboration with PAX for Peace, a Dutch organisation.

The report additionally found that when there are violations by the companies and compensation is to occur, the communities are unaware of this and do not pursue compensation (Moro, et al., 2014:106). This has been taken advantage of by the government. The poor legal systems that characterize South Sudan ensures that these provisions are never provided, and it is easy for the government to take advantage of this, which can be seen in South Sudan's case. The oil industry in South Sudan is also struggling to project economic feasibility to companies, hence a lack of investment. This report also highlights the poor social practices of the government. Socially responsible business practices should aim to benefit communities, the population and the environment. Through the lax legal systems, provisions to benefit communities are not provided when they should be. The report also highlights the lack of care for the environment in South Sudan by the government.

In 2010-2011, approximately 350 000 barrels of oil were produced per day; by 2012 production had dropped to 100 000 barrels per day due to the oil shutdown (Cust & Harding, 2013:12). After the ceasefire was signed in 2018 ending the five-year civil war, the government was intent on reaching the pre-war production of 350 000 barrels a day (World Bank Group, 2018). Oil fields had also been shut down during the civil war and exploration was thus interrupted by the war and instability, with infrastructure also being damaged during the war. The pre-war goal has been pushed back for production expectations to 2020 with the country currently producing 180 000 barrels per day (Dumo, 2019). Cust and Harding (2013:13) predicted a 40% reduction in oil production between 2011 and 2016 and a complete cease of oil production by the mid-2030s. This highlights the economic feasibility, or rather economic implausibility, of oil extraction and production in South Sudan.

South Sudan lacks socially, and environmentally responsible business practices and the economic feasibility of its oil sector is uncertain. If there is increased investment, the oil sector may be able to last longer than the predicted time of the mid-2030s. Nonetheless, operating with a government that does not offer sustainable business practices is harmful to CNCP's reputation. Socially responsible business practices are key as South Sudan is scrutinised by the media for their humanitarian crisis. The lack of socially responsible business practices in the country are seen across the world and therefore harms the reputation of CNPC that chooses to stay operational, despite the lack of benefit to the population and lack of intent of the government to be socially responsible to their citizens. Environmental activism is also a huge source of reputational risk. Associating with a government that does not adhere to environmentally friendly practices places CNPC at further risk to reputational harm. The risk

rating for this indicator is not high but rather medium-high as the economic feasibility of the oil sector is currently satisfactory – the discovery of the new oil field this year assists in this. In the future this will have to be re-evaluated, taking into account any possible discoveries of oil fields.

Risk Rating: 4 (Medium-high risk)

4.3.4.2 Transparent and Timely Reporting

The RGI scores and ranks countries according to both the governance of their sector and their transparency. South Sudan received the failing score of 31/100. As stated, the ambitious legislations helped the country score higher, however, it failed in reporting practices and checks and balances – the government releases “almost no data on the oil sector” (Cust & Harding, 2013:21). The Petroleum Act of 2012 also requires the state-owned company Nilepet to publish audited reports yearly but there has been no follow-through of this. Before South Sudan’s independence there was a joint committee on oil revenue that would release information on production volume, prices and value of oil exports’ Cust and Harding (2013:21) found however that these reports stopped in 2011 after independence was gained. These timely reports indicated a dedication to transparency and offered important information to investors, including CNPC.

Interviewees in Abdalla et al (2013:15) also referred to a lack of transparent reporting in the oil industry. Environmental Impact Assessment (EIA) experts are delegated to conduct studies by companies such as CNPC. These experts additionally stated, “Even we as the team of EIA..., suffer from a lack of transparency, or, sometimes they might direct you to see the positive aspects rather than the negatives ones” (Abdalla, et al., 2013:15). The former Secretary-General of the HCENR had the same issues, emphasising the difficulty of access to information in order to perform the council’s necessary duties and processes.

Risk Rating: 4 (Medium-High risk)

4.4 Overall Risk Evaluation

This table is a visual representation of the above reputational risk analysis of South Sudan.

Indicator	Risk Rating
Know Your Client	3
Source of Wealth	5
Intent with Wealth	4
Location	3
Regulatory Environment	4
Product	5
Capability to Manage Product	5
Commercial Purpose of Product	1
Sustainable Business Practices	4
Transparent and Timely Reporting	4
Overall Risk Rating	38/50

Table 10: Overall Reputational Risk Evaluation for South Sudan.

Source: Author's Analysis

South Sudan's overall rating would place it as a high-risk country regarding reputational risk. Under every factor South Sudan has a median ranking of high risk, which can be attributed to its poor institutions and instability due to the recent civil war. The civil war may have ended in 2018 but the effects are still present in South Sudan. The heightened security risks and poor decision-making by the government results in increased risk for nearly every indicator.

4.5 South Sudan's Outlook: Worth the risk?

CNPC may be viewed as less risk averse than many Western companies and therefore they have chosen to continue operations in South Sudan. However, CNPC has been affected by reputational risks by conducting operations in South Sudan and will continue to be exposed to reputational risks along with other political risks. South Sudan presents high or medium-high levels of risk in 7/9 indicators. This contributes to South Sudan's overall risk rating being high. Entering joint ventures with other oil companies has assisted CNPC in mitigating some risks. although South Sudan is still considered a controversial investment choice and a fragile investment climate.

Controversy is the best word to describe South Sudan while it is still avoided by many Western companies, as is seen by Total's hesitance to restart exploration activities. Cust and Harding (2013:4) found that institutions and policies that are implemented by government impact exploration activities and the possibility of discovering new oil fields. The poor regulatory environment of South Sudan is further impacting their economic feasibility. CNPC is known for following a philosophy of high risk for a high reward, however, as indicated in economic feasibility under sustainable business practices this high in reward might not last for much longer or may be interrupted as it was in 2012. The decision to remain in South Sudan may not harm CNPC's reputation amongst the public, but the public is not the only shareholder in CNPC nor the biggest, the Chinese government is. Choosing to remain operational in a country that is unable to produce according to expectations due to a poor regulatory environment and inability to manage its product will negatively affect CNPC's reputation with the Chinese government. The company is a state-owned enterprise and support for the company can therefore be easily and suddenly cut off by their main shareholder.

Chapter 5: Reputational Risks Analysis of CNMC in Zambia

5.1 Introduction

Zambia's political settlements and economic phases have been led strongly by Zambia's number one mineral resource – copper. Zambia is the world's seventh-largest copper producer and the second largest on the African continent (Liebenthal & Cheelo, 2018:1) Colonial rule saw the beginnings of copper mining in Zambia with favourable commodity prices; independence in 1964 introduced a Zambianization of the workforce, a multi-party state and continued favourable commodity prices. From 1973 onwards, nationalization was accompanied by a one-party state, followed by a period of heavy debt due to depressed copper prices. After the debt burden of the 1980s, a multi-party state emerged once again and thus so did the privatization of the mines (Bebbington, et al., 2018:18). This was all part of a policy prescription to help the country recover under the continued unfavourable copper prices. It was only at the turn of the 21st century that Zambia experienced positive economic growth from favourable copper prices. Since this period of privatisation, Zambia has become a more stable country with a multi-party political regime and positive economic growth.

Control Risks (2019) rated Zambia as a medium political risk country and as a low security risk environment. This studier environment has led to there being greater Western investments - companies from Canada, Switzerland and Britain have all invested in Zambia's mining industry since the turn of the century (Reuters, 2018). Chinese Nonferrous Metals Company Limited (CNMC) is, therefore, not the highest investor but still maintains an 80% shareholding in two major copper mines – Luanshya and Chambishi. However, China is the largest client for copper in the world, creating a high dependency on China for exports of the mineral. Zambia currently faces a poorly diversified economy, threats to foreign presences – especially in the mining sector – and high debt levels (Euler Hermes, 2019)⁶⁹. Various threats to foreign presence can be seen in the anti-Chinese sentiment that has recently spread across Zambia, presenting a threat to Chinese operations and Chinese nationals residing in Zambia. These points will be expanded upon further through the reputational risk analysis that will take place in this chapter regarding CNMC's mining operations in Zambia. A final outlook on the risks presented to CNMC and its operations will be presented in the concluding section of this chapter.

⁶⁹ Euler Hermes is a credit insurance and other financial services company.

5.2 Zambia's Rollercoaster Mining History

Mineral exploration began in the 20th century in Zambia with the first commercial mine established in 1928 (Sikamo, et al., 2016:491). Copper has been and still is the main mineral resource of Zambia. Mining has governed much of Zambia's economic, political and social histories (Bebbington, et al., 2018:5). In 1964 Zambia was granted independence from British colonial rule and was thereby under the leadership of President Kenneth Kuanda, although only two mining companies⁷⁰ maintained control. At the time of independence, 96% of Zambia's exports were copper, accounting for half of Zambia's GDP and 12% of global copper output (Sikamo, et al., 2016:492). Despite the wealth accumulated by copper extraction and exports, little translated into infrastructural development; the only area of Zambia that experienced significant copper-related development was, of course, the area along the Copperbelt region⁷¹ (Bebbington, et al., 2018:6).

The post-independence period brought on an era of nationalization of the Zambian mining industry; in 1969, Matero reforms saw the Zambian government gain 51% ownership of their mines. The Mining Development Corporation managed the mines during the period of partial nationalization; by 1973, full nationalization had taken place and all companies were integrated into the Zambia Consolidated Copper Mines (ZCCM) (Bebbington, et al., 2018:7). This year also saw another great change in Zambia: the constitution was revised and Zambia became a one-party state (Sikamo, et al., 2016:493). Between the years of independence and nationalization, Zambia also became the first Southern African country to launch diplomatic relations with China (Hugland, 2008:555). China played a key role in the construction of the TAZARA railway between Zambia and the Tanzanian coast, allowing for much easier exportation of copper. This is an event that is still stressed by both Zambia and China when speaking of their relations and how they came about.

The positive rhetoric of nationalization and the success of the TAZARA railway did not last long. During the 1970s copper prices fell immensely, leading Zambia into a debt crisis and therefore borrowing heavily from the International Monetary Fund (IMF) and The World Bank in the late 1980s to try recover their economy (Li, 2010:5). It is common for loans from the

⁷⁰ The copper mines of Zambia were owned by two companies during the colonial era and into the 1970s – Anglo-America Corporation owned by the South African Oppenheimer family, and American Roan Selection Trust chaired by British businessman Sir Ronald Prain (Bebbington, et al., 2018:5).

⁷¹ For a map of the Copperbelt region, please refer to Appendix C.

IMF and World Bank to be accompanied by policy prescriptions – since this period, Zambia’s economic policies have been heavily policed by these institutions. One of the policy conditions that Zambia had to assign to at the time of loan implementation was the privatisation of ZCCM, which caused upheaval in the country.

Violent protests and an attempted coup pressured President Kuanda to change the constitution again in 1990, finally allowing multi-party elections to take place in 1991, in which Kuanda lost his position as Zambian President (Sikamo, et al., 2016:494). This change in government was accompanied by the start of privatization of the mines in 1991; despite the policy prescriptions of the IMF and the World Bank, privatization of the mines only started in 1996 and the process was eventually completed in 2000 (Sikamo, et al., 2016:494). The company was sold to several foreign companies – one of these companies being CNMC. CNMC bought Chambishi mine and started the long-lasting relationship between China and Zambia’s copper industry.

5.2.1 CNMC in Zambia

This section offers a brief outline of CNMC’s history in Zambia, with past and current relations being focused on. CNMC⁷² is the parent company of Non-Ferrous Company Africa (NFCA) having an 85% shareholding in NFCA (ZZCM Investment Holdings, 2019). NFCA was established in 1998 as the holding company of Chambishi Copper Mines, which was part of the privatization process of Zambia’s mining industry. When CNMC acquired Chambishi, it had been inactive for 13 years and had been deemed unprofitable by numerous other companies (du Toit, 2013:12). CNMC currently mines at Chambishi main mine and Chambishi West mine; in 2018 CNMC invested US\$832 million into a new Zambian copper mine, developing Chambishi South East mine. This investment extends the company’s lifespan by 20 years in Zambia, ensuring that operations in Zambia will continue for the next 20 years (Reuters, 2018). Copper concentrate is mined at these mines and taken up by Chambishi Copper Smelter, a sister company to NFCA, also owned by CNMC (ZZCM Investment Holdings, 2019).

In 2009 CNMC also acquired an 85% shareholding stake in Luanshya Copper Mines (Li, 2010:6). The company had to transfer 5% of their shares to ZCCM to heed to acquisition terms and thus maintains a position as an 80% shareholder. The original owners of the mine pulled out due to low international copper prices, however, China’s risk appetite saw this as an

⁷² CNMC is a state-owned enterprise under the direct management of State-owned Assets Supervision and Administration Commission (Hugland, 2008:555).

opportunity. In 2018, the mine had a turnover of US\$268 million, producing 43 177 tonnes of copper, more than what was predicted (ZZCM Investment Holdings, 2019).

CNMC has recently been surrounded by public debate regarding their mines' labour practices. This bad publicity became the centre of Michael Sata's presidential campaign in 2011, creating an anti-Chinese sentiment and rhetoric in Zambia (du Toit, 2013:17). This was built on the incidents that had occurred in 2008 and 2010⁷³. This bad reputation can already expose the firms to risks such as public protest or violence. Furthermore, the firms can become targets of governmental action – after Sata won the election, three extraction licenses held by Chinese companies in copper mines were cancelled. After these events, CNMC realised the importance of reputation and the negative actions that can occur after bad incidents; health and safety regulations were thus rectified, and standards became better than they had been in the past (Li, 2010:9). The relationship between CNMC and its Zambian counterparts will be looked at in further detail under the Know Your Client indicator of this chapter. This brief history of CNMC in Zambia has offered a contextualisation of its operations and provided insight into the multiple resources they have invested in Zambia.

5.3 Reputational Risk Analysis

A reputational risk analysis will now be conducted for CNMC as they have invested large quantities of time, money, effort and resources in Zambia. Although there are smaller Chinese companies that operate in Zambia, CNMC is the largest and is under the direct supervision of the Chinese government. As discussed in chapter three, every risk factor has multiple indicators which will be rated accordingly out of five points and justification for these ratings, after careful consideration of the available data, will be provided. Finally, an overall rating out of fifty points will be presented in a table that allows for quick reference. This follows the layout of the previous chapter in order for the findings to be consistent for both cases.

5.3.1 Who

5.3.1.1 Know your Client

Zambia is considered a more stable country compared to other African countries due to various aspects. There are democratic elections held every five years, with the next election being held in 2021; the government of Zambia is a unitary republic, with a Supreme Court and a legislative branch consisting of a National Assembly (KPMG, 2013:5). Despite this, a long-lasting legacy

⁷³ These incidents are described in detail in the preliminary literature review.

of Zambia's post-colonial political rule is still the concentration of power in the hands of the executive branch. There is also an inordinate undermining of institutions of accountability, such as the judiciary and parliament (Bebbington, et al., 2018:16). This undermining of accountability has also transferred into the oversight of business deals – including in the mining industry. The formal structures involved in these processes are also being undermined by the office of the president, political parties or other political actors (Bebbington, et al., 2018:27). The patronage system is therefore integrated into Zambia's state institutions.

President Edgar Lungu, who represents the Patriotic Front Party, was elected in 2016 in a closely-contested election (The World Bank Group, 2019). Lungu replaced Michael Sata, who was from the same political party. Sata won the 2011 election on a largely anti-Chinese sentiment that he created, going as far as to say that he wanted the old colonial rule to return and for the Chinese to leave (Li, 2010:13). In 2013, three Chinese mining licenses were cancelled by the Zambian government (du Toit, 2013:17). Chinese investment was indeed highly politicised in populist politics by Sata, and this anti-Chinese rhetoric has continued even after Sata's passing⁷⁴, posing threats to Chinese presence in the mining sector (Euler Hermes, 2019).

Civil society also has little influence in Zambia, with their ability to mobilize citizens being restricted by the government. The government has also exercised greater influence over NGOs – registration fees and disclosure requirements have created operational issues for NGOs looking to establish themselves and have led to the closure of some NGOs already in existence (GAN Integrity, 2017). These actions make Zambia a more controversial client to be dealing with. Zambia's rank for investment attractiveness is falling as a result of these issues. For example, in 2016, the Fraser Institute ranked Zambia 43rd out of 104 countries in their annual survey on investment perceptions amongst mining companies - only a year, later this ranking had fallen to 71st (Liebenthal & Cheelo, 2018:3). Companies stated that increased political instability and concern over the tax regime⁷⁵ raised concerns when wanting to invest in Zambia.

Another aspect that CNMC must consider is that the government is not the only client they are dealing with as mining activity moves away from the Copperbelt and into other provinces. Despite this expansion, it is still traditional chiefs that “own” 94% of Zambia's land (KPMG, 2013:10). These chiefs have a great role in mining, especially seeing as they are the primary

⁷⁴ Michael Sata passed away in 2014, before the end of his 5-year term.

⁷⁵ The tax regime issues will be discussed in depth under other indicators in this chapter.

decision makers in the resettlement of their tribes; traditional leaders clearly hold strong political lobby and need to be approached by companies when wanting to develop mines. Traditional leaders also have a strong influence over their people and if they are not pleased with mining companies, they can lobby their people to act. Traditional leaders, however, receive a lot of their income from the government which influences their decisions regarding mining companies and their business ventures (Bebbington, et al., 2018:34). Reputation is based off stakeholder perception, and these traditional chiefs are another stakeholder that CNMC needs to consider and manage. If the current anti-Chinese rhetoric continues, local chiefs will likely be influenced against CNMC and pose a threat to their operations.

Risk Rating: 5 (High risk).

5.3.1.2 Source of Wealth

Zambia's wealth is governed nearly entirely by copper and it is the second leading producer of copper in Africa. In addition to copper, Zambia produces cobalt, uranium, gold, diamonds and manganese (Global Edge, 2019). This extensive mineral wealth has led to great investment in the country's mining industry, but international companies have stated that they often pay kickbacks and bribes during the tender process for contracts granted by the Zambian government (GAN Integrity, 2017). In 2011 Zambia achieved middle-income country status due to impressive economic growth⁷⁶ from 2004-2014 (The World Bank Group, 2019). Despite this notable growth, Zambia still ranks amongst countries with the highest levels of inequality with 58% of the population earning less than the international poverty line⁷⁷. Zambia, similarly, to South Sudan, suffers from a high dependency on one commodity and has a poorly-diversified economy. Despite this commodity dependency, Zambia's current growth levels are higher than average Sub-Saharan levels, sitting at 3.4% (PwC, 2019:3). Improved international copper prices assisted with this growth, which emphasises Zambia's overreliance on copper for economic growth.

In 2017, copper accounted for 76.3% of Zambia's exports (Liebenthal & Cheelo, 2018:1). However, international trade in Zambia is often hindered by inescapable corruption and crime in customs (GAN Integrity, 2017). Bribes and irregular payments are common, with the clearance process and time taken for import procedures being ranked as poor by companies

⁷⁶ Economic growth averaged 7.4% for the years 2004-2014 (The World Bank Group, 2019).

⁷⁷ The international poverty line is \$1.90/day. The average number of people living below the poverty line in Sub-Saharan Africa is 41% compared to Zambia's 58% (The World Bank Group, 2019).

operating in or trading from Zambia. Import and export bans also occur in a random manner. Corruption and crime in customs have led to violence and loss of life – in 2014, several truck drivers were killed by Zambian custom authorities after refusing to pay bribes when crossing the borders. Trucks carrying goods are often attacked and looted when waiting to cross the border into Zambia (GAN Integrity, 2017).

A fiscal deficit and high debt levels – that trace back to the 1980s – are also present in Zambia (Euler Hermes, 2019). Zambia's current account has a deficit of -3.5%. The poor financial performance of the country's accounts was used to garner popular support in the elections of 2015; however, this was financed through loans, thereby increasing debt. Zambia's external debt currently sits at US\$9.4 billion accompanied by domestic debts that bring their total debt burden to approximately US\$17.2 billion (Euler Hermes, 2019). As previously mentioned, Zambia was provided with loans from the World Bank and IMF and is currently in talks with the IMF for another loan. These loans are often tied to policy prescriptions, as the previous loans were⁷⁸, that can affect businesses that are operational in Zambia.

Zambia has great mineral wealth but has not capitalised on it which has led to the government focusing on increasing tax revenues from mining through new tax measures⁷⁹. These new tax measures will increase the burden on those companies in the mining industry, impacting jobs, investor confidence and investments (PwC, 2019:3). Investment from 2004-2016 was US\$12.3 billion, accounting for 70% of foreign direct investment (FDI) in Zambia (Liebenthal & Cheelo, 2018:5). FDI is an important source of wealth for Zambia and attempts should be made to retain this source. The current business climate is not of great concern and still attracts FDI and is an interesting new foreign investment (Euler Hermes, 2019).

In order to monitor revenue collection from the mining sector, Zambia joined the Extractive Industries Transparency Initiative (EITI)⁸⁰ and created their local organization – Zambia Extractive Industries Transparency Initiative (ZEITI) (Sikamo, et al., 2016:495). The organisation monitors what mining companies declare they have paid to government and respective government agencies versus what the government recognizes receiving from the

⁷⁸ The previous loans were provided on the condition that Zambia privatised its mines again.

⁷⁹ The tax regime in Zambia is one of instability and has been changed multiple times. This will be expanded upon under Regulatory Compliance further in this chapter.

⁸⁰ EITI is an international organization that advocates for transparency in the statement of earnings and revenues that arise from extractive industries (Sikamo, et al., 2016:495).

mining companies. ZEITI publishes yearly reports and shows great agreement between what government states that it receives and what mining companies declare they have paid to the government. Authoritative reports and data were published by ZEITI until 2015, however there have not been more recent reports published that offer the same kind of data (Liebenthal & Cheelo, 2018:7; GAN Integrity, 2017).

The Zambia Revenue Authority is another organisation that exists and has seen increased success in gaining increased government revenue. The authority was subject to allegations of a substantial corruption scandal whereby they inflated the costs of a contract that is presumed to involve embezzlement and misappropriation of funds (GAN Integrity, 2017). No persecutions have been made; these contracts are not only made with locals but also foreign companies, placing them at risk of corruption scandals. Despite this, corruption in the mining sector is moderate due to its importance to the Zambian economy.

Corruption is present in the Zambian government; the collection of bribes in return for tenders is a prime example of this (MVO Nederland, 2019). Transparency International (2018) ranks Zambia 105/180 countries with a score of 35/100. The issues that present the greatest threat to CNMC is the murder of truck drivers for refusing to pay bribes (GAN Integrity, 2017). CNMC is under direct supervision by a government commission that discourages any form of bribery or corruption. Chinese employees that refuse to pay bribes to customs officials can face the same outcome as the truck drivers who lost their lives – loss of life is thus a great reputational risk and would greatly affect the stakeholders' trust. The other option (taking part in the corruption) also presents a reputational risk for CNMC as the public would lose faith in the company should they be aware of the corruption.

The lack of ZEITI reports also presents a risk to reputation, albeit more minor compared to the bribery. The anti-Chinese sentiment created by politicians in Zambia is dangerous to CNMC's reputation and the politicians go to great measures to create this sentiment. Chinese state capital is a source of wealth for Zambia; however, it is vulnerable due to the politicians who exploit and channel popular public opinion of resource nationalism against Chinese investment (Bebbington, et al., 2018:34). If there are no recent ZEITI reports to back up the revenues CNMC declare they pay to the government, politicians could state otherwise. Despite these two risks, the country's high debt levels and overreliance on copper does not present reputational risks to CNMC. The continued FDI flows into Zambia are also a good indication that their reputation as an investment climate is not one of concern.

Risk Rating: 3 (Medium risk)

5.3.1.3 Intent with Wealth

Zambia's intention with wealth is not as questionable as some of its neighbours; their wealth is mainly just mismanaged, as is the case with most African countries. During Zambia's period of nationalization, ZCCM provided most of the social services⁸¹ in most of the mining areas. When the mines underwent privatisation, these duties fell to local authorities who were not equipped with the financial and organizational assets necessary to deliver the same standard of services (Liebenthal & Cheelo, 2018:8). The result of these shortcomings on the local government's behalf is that the responsibility has fallen to companies that operate in the Copperbelt, including CNMC. There is a lack of attention given to revenue-sharing control between central and local government, which often leads to insufficient financial revenue being provided to local authorities to provide social services.

Zambia is currently on the receiving end of great debt relief and loans from international institutions. Information on how these borrowed funds are spent by government is not available – there is no indication of whether the borrowed funds are used correctly to meet the economic and social criteria set out by the institutions (Liebenthal & Cheelo, 2018:16). Zambia does have the goal of reducing its debt problem, yet there is little mention of how this will be achieved. Information is not available on how the government will reduce the cost of its burdensome civil service and repay the outstanding debt (both external and internal) (PwC, 2019:4). Debt service costs have increased from 20% in 2018 to 27% in 2019, taking up more of the national expenditure budget. Zambia has been declared as being at high risk of debt distress by the IMF and World Bank (PwC, 2019:4).

In 2015, the Zambian government introduced a sovereign wealth fund in the budget. This budget indicates that the government is thinking about long-term development. However, this budget is the result of Norwegian cooperation partners and the Norwegian Embassy's influence (Bebbington, et al., 2018:15). Yielding to this indicates the extent of these Norwegian institutions influence and adds an additional stakeholder to consider when conducting business in Zambia.

The Zambian Minister of Finance, Hon. Mwanakatwe, stated in her budget speech for 2019 that the government would be focusing on controlling the growth of the government wage bill

⁸¹ These services include hospitals, schools, health clinics and general infrastructure.

(PwC, 2019:2). Zambia has a spending pattern that focuses on salaries, making personal wages the largest share of recurrent expenditure (Liebenthal & Cheelo, 2018:17). Further details on how the Zambian government planned to achieve this goal were not given. The Public Finance Management Act was passed in 2018 and aims to improve fiscal judiciousness and provide retributive measures for those who are found abusing and misusing public funds (PwC, 2019:2). The Planning and Budget Bill was also passed in order to improve the management of public resources.

Zambia's intent with their wealth does not represent a great reputational risk to CNMC. The greatest risk that emerges from this indicator regards the responsibility of social service delivery in the mining regions falling to foreign companies operating in those areas, including CNMC. If the communities are not pleased with the level of social services, it can fuel the anti-Chinese sentiment already present or lead to protests. However, this responsibility of providing social services, mainly the financing of them, falls on the shoulders of all foreign companies operating in mining regions and not just CNMC.

Risk rating: 2 (Low to medium risk)

5.3.2 Where

5.3.2.1 Location

Zambia is a landlocked country in South-Central Africa. It is bordered by the DRC, Tanzania, Malawi, Mozambique, Zimbabwe, Botswana, Namibia and Angola. The DRC and Zimbabwe represent the highest risk neighbours, each having a high political risk and a medium security risk (Control Risks, 2019). Angola, Tanzania, Malawi and Mozambique all have a medium political risk with Namibia and Botswana being low. The security risks also range from medium to low. Due to its landlocked position, Zambia is reliant on communication routes of its neighbours to access key international transport and communication routes (Global Edge, 2019).

Zambia shares key geographical and economic features with Zimbabwe, most notably Lake Kariba and its hydroelectricity capacity (The World Bank Group, 2019). One of Zambia's greatest weaknesses is its poor electricity generation and it is nearly exclusively reliant on hydroelectric power generation (Global Edge, 2019). Previously Zambia did not have hydroelectrical stations on their side of Lake Kariba making them reliant on Zimbabwe. After recent political shocks, Zambia established five hydroelectric plants on their side of the lake making them self-sufficient.

Zambia does hold agreements with South Africa, Zimbabwe and DRC whereby they export through the Port of Durban in South Africa, which is used for much of its copper exports (KPMG, 2013:14). Most of the transport takes place via road routes as the railway system is unreliable. Nevertheless, this method of exportation has worked well for Zambia in the past and the mining companies operating it have not reported any incidents thus far. Zambia's location, therefore, carries a low risk to the reputation of CNMC.

Risk Rating: 1 (Low risk).

5.3.2.2 Regulatory Environment

This disregard for regulations can be traced back to the process of privatization that occurred in the 1990s. The Mines and Minerals Act was passed in 1995 to assist in privatizing ZCCM and dismantling the organisation into individual companies (Bebbington, et al., 2018:8). The Act created a path for negotiations of Development Agreements with individual companies instead of a stable tax regime, as well as a set of conditions that would regulate how private mining companies were to operate in Zambia. The process has been covered in controversy. The Development Agreements have also never been made public through official publication but were leaked to the public and media (Liebenthal & Cheelo, 2018:5). In the years after these "closed-door" negotiations were conducted, many of the state-officials that were involved were subject to corruption charges and even convicted of these charges (Bebbington, et al., 2018:8). The Chiluba government⁸² has still not been able to account for US\$35 million that it should have received during the privatization process as it sold the Roan Antelope Mining Corporation (Bebbington, et al., 2018:28). The privatization process evidently lacked great legitimacy.

The current primary law governing Zambia's mining industry is the Mines and Minerals Development Act No.11⁸³ (Silwamba & Jalasi, 2018). This Act was passed in 2015 and repealed and replaced the Mines and Minerals Development Act of 2008. The current Act is read together with the Mines and Minerals Development (Amendment) Act No. 14⁸⁴, passed in 2016. The judicial system, police system, land administration, customs administration and

⁸² Frederick Chiluba was the second post-independence President of Zambia from 1991-2002.

⁸³ This act concerns mining rights, licenses, large-scale mining, gemstone mining, health and safety, environmental protection and geological services. Despite the Act's existence, regulatory compliance by government and organizations in Zambia is still of very poor quality (Silwamba & Jalasi, 2018).

⁸⁴ Other acts regarding mining in Zambian legislation include the Mines Acquisition (Special Provisions) Act, Chapter 218 and 219 (Silwamba & Jalasi, 2018).

the mining sector all suffer from widespread corruption (MVO Nederland, 2019). Foreign firms consider the Zambian administration structure to be highly corrupt, which often results in foreign firms' property rights not being sufficiently protected or enforced (GAN Integrity, 2017).

Foreign companies further agree that bribery is common when doing dealings regarding environment inspections. Environmental standards were also negotiated with individual mining companies and vary between the different mining companies operational. Monitoring agencies do not have a country-wide regulation to follow but rather firm-specific regulations that make monitoring complex (Hugland, 2008:561). Furthermore, concessions on the environmental regulations for firms depends on their assets. As has been established throughout this study, the environment is one of the greatest sources of reputational risk as both the local and international community can create negative perceptions.

Both foreign and local companies face bribery in nearly all business operations in Zambia. Company registration, acquisition of construction permits, utility set up and tax payments are processes that are highly subject to bribery and corruption in Zambia (GAN Integrity, 2017). International trade is also hindered by the corruption in the Zambian customs administration, as can be seen in the Fraser Institute's annual Economic Freedom report ranks Zambia 83rd with a score of 6.84/10 (Fraser Institute, 2019). This ranking is based on the size of government, legal structures and property rights, access to sound money, freedom to trade internationally and regulation of credit, labour and business. Zambia's lowest score is 5.22/10 for legal systems and property rights; in 2013, Zambia had been ranked 38th showing a steady decline in the above indicators (KPMG, 2013:6).

The 2015 by-presidential election in Zambia was a close race and the candidates needed popular appeal to win. In order to create this popular appeal, a new Mining Act was passed in 2014 by the government to assist in reducing loopholes in the tax system for mining companies and tax evasion (Bebbington, et al., 2018:31). Barrick Gold⁸⁵ responded to the new mining Act by stating that it would be suspending operations at the Lawana open pit mine. Edgar Lungu won the by-presidential election and the mining tax rates were renegotiated and the Act reversed, and operations by Barrick Gold then continued. Before this Act was passed, the tax

⁸⁵ Barrick Gold is a Canadian mining company.

regime for mining companies had been changed in 2008 and again in 2009 (Liebenthal & Cheelo, 2018:6). It was changed again after the pressure from Barrick Gold in 2016.

In 2017, Zambia scored 50/100 on the National RGI – value realization scored 58/100, with enabling environment scored the same but revenue management was at 35/100 (Liebenthal & Cheelo, 2018:3). In comparison, South Sudan scored 80/100 despite the country's high instability and ongoing suffrage after the civil war. The index rated ZCCM as the second-best governed state-owned enterprise in the sub-Saharan Africa region. However, as indicated above it is not the Minister of mining of ZCCM that often makes decisions, but rather the president. Terms of investment, insufficient labour laws and poor implementation of laws relating to mining operations by the government has led to issues such as poor labour conditions (Li, 2010:10). The regulations that govern the mining sector are thus outdated and offer little motivation to companies to be compliant, even though violations can lead to on-the-spot fines (Hugland, 2008:560). In 2008 these fines equated US\$37, which, when compared to the profit these companies turn on a monthly basis, is hardly a demanding amount to pay.

The Ministry of Mines and Minerals Development is the government body that is responsible for the mining industry in Zambia. The Mines Safety Department is run by the Ministry and is assigned the duty of monitoring health and safety performances of the mining companies operating in Zambia (Hugland, 2008:559). The Environmental Council of Zambia came into existence in 1990, mandated with assessing and monitoring national environmental impact assessments. The Council was established under the Environment Prevention and Pollution Control Act. Although these Ministries and Councils exist and should theoretically be accessible and regulate numerous business activities, the regulation of mining operations in Zambia is disadvantaged by a lack of skilled inspectors able to carry out physical inspections, as well as the resources necessary to cover the vast areas of mining operations. The poor salaries paid to these inspectors also makes them inclined to rent seek. The Environmental Protection Fund was also established under the Mines and Minerals Regulation of 1998. The fund's purpose is to use money collected from mining projects to assist with the environmental rehabilitation of mining areas. The goals of the fund are a brilliant initiative, however, executed poorly (Liebenthal & Cheelo, 2018:9).

In 2011, the Environmental Council of Zambia became the Zambia Environmental Management Agency (ZEMA). ZEMA is an independent environmental regulator that follows a mandate set out under the Environmental Management Act passed in 2011 (KPMG, 2013:9).

ZEMA's job includes safeguarding the sustainable use of Zambia's natural resources that they are so abundantly blessed with. The legal framework of the mining sector is judiciously sound, yet the process of awarding and retaining of mining and exploration licenses have suffered a major lack of transparency and consistency (Liebenthal & Cheelo, 2018:3). Many issues in the Copper-Belt have been framed by Zambian anti-Chinese sentiment as being issue-specific to Chinese companies but they are clearly Copperbelt-wide issues (Li, 2010:10). Gaps in institutional capacity, poor reporting, poor accountability and consistent political interference have long marked the Zambian regulatory context (Hugland, 2008:559).

The regulatory environment of Zambia presents a medium-high risk to CNMC. Copper's importance to the Zambian government and economy allows companies to apply pressure on them, as was seen with Barrick Gold and the tax regime change. Foreign firms are more influential than local firms and can create a regulatory environment favourable towards themselves. The main takeaway from the data presented in this section is that the corruption and gaps in institutional capacity do, in fact, negatively affect foreign firms.

Environmental regulations have been created to help govern mining companies and their ventures, and a Council has been established to monitor these regulations, but once again poor capacity hinders the performance of this Council. The lack of guidelines and implementation of these regulations offers little for CNMC to follow when conducting operations. If incidents occur as a result of the poor regulatory environment on Zambia's part, CNMC is likely to be the "fall guy" and receive negative attention and therefore, damage to their reputation. This is the main risk presented to CNMC for its current or future operations.

Risk Rating: 4 (Medium-high risk)

5.3.3 What

5.3.3.1 Products

Copper is a product that is used mainly in electrical equipment, construction and industrial machinery. Copper mining dates to long before white settlers arrived in what is known now as Zambia. Mining in Zambia is a traditional practice and is a great part of the country's national patrimony. Copper is an important mineral, hence the importance of Zambia's Copperbelt and reserves, however, there is very limited data available on its extraction capacity. The latest data puts the figures at 8.4 million tonnes of undiscovered copper in the Copperbelt and Central Provinces. This figure does not account for the copper found in the North-Western Provinces that accounted for 70% of production in 2017 (Liebenthal & Cheelo, 2018:2). The Northern

Province was also not accounted for in this figure of undiscovered copper. Mineral reserve assessments and reports are also not readily available for further inspection.

Copper production has seen many ups and downs in Zambia. In 1969, production was at 720 000 tonnes per year. This was also when talks of nationalization began. As nationalization occurred, production dropped to 700 000 tonnes/year; by 2000, production had dropped to an all-time low of 250 000 tonnes/year (Sikamo, et al., 2016:494). Privatization saw a boost in investment and refurbishing of the neglected mines, recovering production to 763 000 tonnes in 2013. In 2018, copper production reached over 860 000 tonnes (ZZCM Investment Holdings, 2019). The increase in production is a good sign for foreign companies but when the history of production is considered it is intrinsically linked to the history of political changes. Mining production in Zambia is subject to the regime that is in charge at the time and, with the increase in political instability in Zambia, this is something that must be continuously and consistently monitored. If nationalization were to occur again, CNMC would not only lose their investments in Zambia, but also their reputation as decided by the Zambian government would weaken for not being able to foresee this development in the industry.

Being operational in the extractive industry immediately exposes a company to greater reputational risks compared to other industries. It must be reiterated here that corruption, poor governmental regulations, civil unrest/on-ground opposition, political instability, environmental activism and war are common threats that face the extractive industry. CNMC does face some of these risks in Zambia – poor regulations, corruption, instability and some on-ground opposition – but Zambia is a less risky environment when compared to other countries. Continued monitoring could assist in mitigating and managing any events where CNMC's reputation is at stake in Zambia.

Risk Rating: 4 (Medium-high risk)

5.3.3.2 Capability to Manage Product

Zambia was forced to privatise their mines as part of the most recent debt-relief policy prescriptions from the IMF and World Bank. The way in which this process took place is the first indication of Zambia's lack of capability to manage their product – copper. The poor institutional capacity to offer effective monitoring and other services, such as effective law enforcement, has brought to the surface many governance issues (Cronje, et al., 2017:14). These governance issues occur on all levels in the mining sector and hinder benefits for the mining communities and government.

The poor process of negotiations regarding privatisation and the development agreements are the roots of many issues. The government, the mining communities and people of Zambia, and the foreign firms have a strained relationship as a result of these agreements (Li, 2010:6). The main issue is that the mines were sold when copper prices were low, putting the government in a position of weakness. This is still the issue today resulting in the government having little capability in managing their product. While the copper price has recovered, the Zambian government is still in a position of weakness, lacking the ability to even collect greater revenues from their mines.

Another example of this poor capability is the lack of response when community members reported multiple times that copper from the mines was being moved out of the country via trucks at night. This act is illegal and despite several reports from community members, no feedback has been offered regarding actions taken against this illegal transportation (Cronje, et al., 2017:14). Sub-par labour and environmental practices and the poor community contributions by the government can also be traced back to these agreements (Li, 2010:6; Liebenthal & Cheelo, 2018:8). The lack of capability in managing products is not the matter of companies but is an indicator of the problems of the agreements made at privatisation.

The Zambian people are the ones who benefit the least due to Zambia's lack of capability to manage copper and the benefits that should accompany the production levels that Zambia maintains. The lack of trickle-down effect has led to most of the Zambian population still living under the universal poverty line, as previously stated. However, this does not pose reputational risks to CNMC. The main reputational risk posed to CNMC is that issues or blame regarding labour, the environment, revenues and community investment that stem from the Zambian government's poor capability can be shifted to the companies involved in the mining sector. A report written by the World Bank (2016), eluded to this fact stating that the monitoring agencies in Zambia need to be strengthened. This is not to say that firms may not be at fault but even when they are not, it is the poor capability and capacity of the Zambian parties involved that are the root cause of the problem.

Risk Rating: 3 (Medium risk)

5.3.3.3. Commercial Purpose of Product

Zambia's copper exports account for 69% of their total exports (Euler Hermes, 2019). They export most of the output that they produce as a primary resource. Zambia then imports secondary products, when the copper has been converted into products that are used in sectors

such as construction and electronics. Thus, the commercial purpose of copper in Zambia does not present reputational risks to CNMC.

Risk Rating: 1 (Low Risk).

5.3.4 How

5.3.4.1 Sustainable Business Practices

As indicated in the previous chapter, sustainable business practices consider social, environmental and economic feasibility. Again, regulatory compliance did cover the aspects of environmental regulations that govern the Zambian mining sector. Discussed under this section is the Environment Management Act of 2011 and the Environment Prevention and Pollution Control Act that exist with ZEMA established under the latter Act. ZEMA acts to safeguard and ensure sustainable usage of Zambia's natural resources, although its existence is not enough, as the lack of resources and capacity hinder the Agency is carrying out their duties. Zambia has been mining for over 100 years, leaving significant environmental damage that has not been addressed correctly. Lead pollution, sulphur dioxide emissions, soil erosion, air and water pollution, acid rain and crop damage have all been recorded in Copperbelt towns (Liebenthal & Cheelo, 2018:9). The Kafue River has been affected by pollution and, as a water source for many communities, has drawn the attention of international activism by international NGOs.

The Zambian government has strongly navigated away from taking part in community activities that would be considered Corporate Social Responsibility (CSR). This action leads to mining companies, including CNMC, having little direction on how to prioritise and take part in CSR (Cronje, et al., 2017:15). The governments abandoned role to communities and lack of taking responsibility for their people strongly affects their social feasibility; hopelessness and mistrust are adjectives communities use to describe how they feel towards their government. During the privatisation process government and local authorities were left with addressing this damage, hence the established of the Environment Prevention and Pollution Control Act and the first Agency in 1991. Again, the lack of technical and financial capability greatly affects how they can address this environmental damage and lack of CSR to mitigate the damage (Liebenthal & Cheelo, 2018:9). Bribes are also often paid to environmental inspectors as their salaries are far below average, a result of the lack of resources made available to the Council. Environment officials admit to not taking necessary disciplinary action and that there is a lack of technology allowing for effective monitoring (Cronje, et al.,

2017:15). There are also constant reports of illness from mining communities due to environmental degradation. Lead contamination in Kabwe and sulphur-dioxide produced by the mines causing respiratory issues and skin diseases are just some examples of this fact (MVO Nederland, 2019).

Standards regarding environmental practices were negotiated with individual companies and an across-the-board standard was not created. These negotiations regarding the environmental standards took place during the negotiations of the Developmental Agreements with firms during the privatisation process – a process that is still considered to have been incredibly corrupt. Many issues pertaining to social and environmental feasibility are linked back to these agreements, issues such as neglect of labour and environmental standards (Li, 2010:6). The post privatization period has still not seen a demarcation of who is responsible for environmental damage clean-up.

Zambia's potential has been identified by multiple agencies and companies, which resulted in the Zambia Green Jobs Programme, started with the help of the United Nations and Government of Finland (United Nations Zambia, 2015:3). The programme is aimed at sustainable development, targeting private sector expansion for inclusive green growth. The programme also focuses on more and better jobs, especially for the younger and female⁸⁶ populations. The programme aims to create 5000 decent green jobs and improve the quality of 2000 jobs in micro, small and medium-sized enterprises⁸⁷.

The programme has seen some success, creating 2660 new green jobs⁸⁸ thus far and improving 2018 existing jobs (United Nations Zambia, 2015:4). The programme is helpful in boosting Zambia's sustainable business practice reputation, focusing on social, economic and environmental feasibility. However, the last report and information published on the programme was in 2015, with no further up-to-date information on its successes available.

The copper resources that Zambia produces do offer economic feasibility for the country. The geological reports that have been made available show great potential for future investment in copper and other mining resources (Sikamo, et al., 2016:495). It is the revenues that the

⁸⁶ Over 50% of Zambia's working population and country population is female (United Nations Zambia, 2015:3; The World Bank Group, 2019).

⁸⁷ The goal for this initiative was 2018 but was not fully reached.

⁸⁸ Green jobs are jobs that preserve or restore the environment in the more traditional sectors such as construction or manufacturing.

government claims that may not offer feasibility. Estimates ranging from by the World Bank was that revenue could be US\$1.5 billion⁸⁹, another estimate by the United Nations Development Programme was US\$4 billion and another estimated US\$1 billion – 5-7% of GDP (Liebenthal & Cheelo, 2018:4). The estimate ranges are large and indeterminate, partly due to the everchanging tax regime in Zambia.

In 2005, Zambia qualified for debt relief yet again, this time under the Highly Indebted Poor Country Initiative (KPMG, 2013:6). Today, the country still suffers from escalating debt levels, so high that the IMF has warned that Zambia is at risk of debt distress (PwC, 2019:2). Debt distress would be accompanied by further loans and possible policy prescriptions that could affect the operations of mining companies, including CNMC. KPMG's mining guide (2013:14), indicated nearly 50% of energy and power infrastructure projects were being funded partially or fully by other countries. Seven years later Zambia still faces high debt and lacks the tools to ensure total economic feasibility.

Zambia also lacks a resource revenue management strategy to help ensure that its revenues are used to maintain economic feasibility (Liebenthal & Cheelo, 2018:10). This lack of revenue management strategy affects funding for things such as road maintenance, both a social and economic aspect for the country (Liebenthal & Cheelo, 2018:16). Another aspect is the struggle between managing mining revenues and the benefits of mining activities with environmental degradation resulting from mining (Cronje, et al., 2017:15).

Zambia's potential has been identified and supported with foreign aid as seen with the Green Jobs Programme, offering aspects of sustainable business practices. The copper resources Zambia possess are also enough to offer economic feasibility if there are better revenue management strategies put into place. This lack of strategies negatively affects the Zambian population and environment. Lack of resources and tools made available by the government also negatively affects Zambia's environment. This is probably the greatest threat to reputation emerging from sustainable business practices indicator. Another source of risk is Zambia's debt levels that affect their economic feasibility. Debt relief is commonly accompanied by policy prescriptions set out by international financial institutions that a country must abide by in order to receive debt relief. These policy prescriptions can affect companies conducting operations in the country and it would not be possible for CNMC to predict what these prescriptions would

⁸⁹ These figures are all per annum.

be. This is, however, a general political risk that faces CNMC and not a specific reputational risk.

Risk rating: 3 (Medium risk).

5.3.4.2 Transparent and Timely Reporting

The privatisation process is again at the centre of issues that are facing Zambia. During the process, the government was advised that it would be too expensive for firms that were going to buy into the sector to upgrade their systems; the firms received poorly-maintained technology that would not be able to reach compliance with Zambia's constitutional standards (Hugland, 2008:561). Self-reporting is thus complicated and, as with most standards that emerged from the privatisation process, are not common standards. Monitoring agents are not equipped with the resources to handle all the firm-specific standards, leading to incomplete or non-submissions of reports.

Under the source of wealth indicator, Zambia's membership of the Extractive Industries Transparency Initiative was discussed as was the establishment of their local organization, ZEITI (Sikamo, et al., 2016:495). Membership of this international body is a positive indication, however, the last report published by ZEITI was in 2015. ZEITI focuses on the earnings and revenues companies say they have paid to the government and whether this correlates to what the government says they have received. Not publishing reports can call into question whether the widespread corruption in Zambia has affected these revenues or what other reasons they might have for not having published a report in over four years.

Zambia's debt crisis has also started attracting greater attention from the international community. The country's debt management plans are not clear, thereby reducing public support for the government and their decisions. Information is not available on how funds are spent and whether they are used correctly to meet economic and social standards (Liebenthal & Cheelo, 2018:16). PwC (2019:4) recommends transparent, comprehensive and regular reporting in order to gain back public support for the government. Losing public support can lead to conflict and pushback from the citizenry. These situations present reputational risks to CNMC and their operations.

Risk Rating: 3 (Medium risk).

5.4 Overall Analysis

Below are the tabulated results of the risk analysis, simply stating the indicator and the corresponding risk rating. The risk ratings are added up to give an overall risk rating out of 50 points. This is an outline of the above analysis' results and offers a quick and easy overview of what has been discussed in this chapter.

Indicator	Risk Rating
Know Your Client	5
Source of Wealth	3
Intent with Wealth	2
Location	1
Regulatory Environment	4
Product	4
Capability to Manage Product	3
Commercial Purpose of Product	1
Sustainable Business Practices	3
Transparent and Timely Reporting	2
Overall Risk Rating	28/50

Table 11: Overall Reputational Risk Evaluation for Zambia.

Source: Author's analysis

Zambia's overall risk rating of 28/50 shows that while Zambia is not a top investment destination, it currently does not present great reputational risks to CNMC; it is therefore considered a medium risk country. As with all risk, continued monitoring should take place to ensure that this does not change. The threat of greater political instability, weak state institutions resulting in poor regulatory compliance and an anti-Chinese sentiment can change this outlook. There has been a slow decline in Zambia's ranks as an investment climate for mining companies, indicating that these issues increasingly come to the surface.

5.5 Zambia's Outlook: Gloomy or Safe?

Zambia presents a difficult case for CNMC. The country runs into numerous issues in the extractive industry and presents reputational risks in areas such as their poor regulatory environment and high corruption levels. However, the country is considered by many international firms as more stable than other African countries and a better investment

environment. The presence of other international firms from countries such as Canada illustrates this. The highest-ranking risk to CNMC is Know Your Client. Zambian politics has turned to an anti-Chinese sentiment – targeting both firms and citizens. With the increase in Chinese migration to Zambia, this does place their people at risk too. Despite the mining sector being of great importance to the Zambian economy and investment from China being worth billions of dollars, the threat to their presence in the mining sector still exists.

CNMC, as with many international Chinese firms, is a state-owned enterprise. CNMC is under the direct supervision of a branch of the Chinese government, the State-Owned Assets Supervision and Administration Commission, again relying on them for funding. Any threats to Chinese citizens and firms from the Zambian government would be the biggest reputational risk for CNMC but there have been no serious incidents yet, keeping their most important stakeholder pleased with their risk-reward ratio.

Chapter 6: Conclusions and Recommendations

6.1 Introduction

The final chapter of this study is an overall assessment of the study that has taken place - tying together findings, summarizing these findings and providing recommendations for future research. The first section of this chapter focuses on the process of how this study started and has come to its end. The aims, rationale and relevance of this study will be considered again as along with the research question. The second section of this chapter focuses on answering the research question, looking into each case study and creating a comparison between the two. This fulfils both the answering of the research question and fulfilling the research designs goals.

The third and final section of this chapter will conclude with recommendations for future researchers taking on the challenge of reputational risk through a political science lens. This section also offers an opportunity to reflect on the study that has taken place – no study is perfect. This is the section to identify the challenges or “imperfections” of this study in the hopes of assisting future research.

6.2 The Evolution of this Study

Africa, the ‘dark continent’ of the world, has become the investment capital for countries such as China. Investing billions of dollars in a continent that is still filled with poor economic development, instability and weak state institutions presents various political risks to firms, many of which can manifest into reputational risks. These risks are exacerbated when firms are operational in the most sensitive of all industries, extraction. These are the points that are brought forward at the start of this study. The aim of the study was to explore the reputational risks facing Chinese firms active in the extractive industry in Africa and consider implications for their operations.

The relationship between China and Africa is one that has been studied greatly, but frequently from the African perspective. This study offers an in-depth look at the relationships between China and South Sudan and China and Zambia from a Chinese perspective, an area that is often understudied in Africa. The rationale of the study was to offer not only contextualisation of this aforementioned relationship but of reputational risk too. Reputational risk has not been explored in great depth in political risk analysis, as the links between the two are not always clear, hence most of the literature being anchored in the financial field. This study has looked at reputational risk from a purely political lens.

The study has been explanatory and descriptive in nature. A qualitative approach was made use of, focusing on secondary sources that are available to the public to gather information. A multiple case study design was the research design for the study, focusing on Zambia and South Sudan. The research design is also inclusive of a comparative aspect, looking at the similarities and differences presented by the two African countries. South Sudan presented itself as a more obvious case study, with the civil war and humanitarian crises the country is facing having created various risks to international firms. Zambia, on the other hand, a not so obvious choice – Zambia, according to most firms and risk ratings, is a more stable African country that ranks higher for doing business. It is Zambia's relationship, specifically the Copperbelt's relationship, with China that makes Zambia suitable for this study. Both Zambia and South Sudan are single commodity-dependent economies, creating the link between the two.

The preliminary literature review presented these case studies. An introduction to terms such as political risk, reputation and reputational risk is also offered in the preliminary literature review. Another introduction in chapter one that is vital is that of the model to be used in the coming chapters to conduct the reputational risk analysis. The information provided in the preliminary literature review forms the basis of the contextualisation in chapters two and three, indicating the necessity of chapter two as these terms are difficult to define and required more detail. The final takeaway from chapter one was the formulation of the primary research question - *What are the reputational risks to Chinese companies conducting operations in extractive industries in Africa?*

Chapter two discussed the theoretical frameworks and concepts important to this thesis. Decision-making and problem-solving theories are the theoretical foundations of this study, as they have formed and continue to form the foundation of political risk analysis as a field of study and practice. Terms used throughout the study were also defined and conceptualised. These terms include risk, political risk, reputation and reputational risk. As a field, political risk has evolved and will continue to evolve as the world changes. Rice and Zegart (2016:6) offer the definition followed throughout this study, focusing on the probability that political action can affect a firm's business and normal operations. This is not uncommon from other definitions, however, these authors place emphasis on risk generators originating from outside the usual realms of politics. Reputational risk often originates from areas that are not considered the norm, such as the environment, but can still have a significant impact on a firm's business.

The above conceptualisation leads to the definition of reputational risk that is also provided in chapter two. O'Callaghan (2007:109) defines reputational risk as a risk that comes from a range of threats which can weaken a firm's ability to function as a business and harm the firm's community standing. O'Callaghan's definition is older, however his emphasis on a range of threats, from business, social or political realms agrees with the definition of political risk as set out by Rice and Zegart. The final focus of chapter two is the discussion of the main risks facing companies in the extractive industries, demonstrating the close links between political risk, reputational risk and the extractive industries.

The analytical tool used for this study needed a full chapter to provide necessary detail and understanding. The model created by Swanepoel et al. (2017) is a qualitative model used to measure reputational risk. Four factors are focused on – who, what, where and how – followed by indicators used to measure these factors. Numerical values between 1 and 5 are used to measure the risk and a risk rating of either low, low-medium, medium, medium-high or high. This chapter then also focused on the changes that were made to the model for it to suit the field of this study – political risk analysis. Certain indicators were eliminated as they were not necessary or could not be measured. Other indicators were adjusted slightly in order to meet the requirements of the political research being conducted.

Chapters four and five made use of the analytical tool introduced in chapter three. The tool assisted in measuring the reputational risk to the respective Chinese companies operating in South Sudan and Zambia. These chapters are set out to answer the primary research question as set out in chapter one. Each indicator of the model was applied to South Sudan in chapter four and Zambia in chapter five, with a numerical value and risk rating being assigned to the indicator. The overall risk rating for both countries was presented in a tabulated form (refer to *Table 10* and *Table 11*).

Reputational risks were identified facing Chinese companies in both chapters, with South Sudan ranking riskier than Zambia. The relationships between the countries and the Chinese companies operating there are also vastly different. Zambian government officials and CNMC do not have as good a relationship as the South Sudanese government and CNPC. This indicator is where South Sudan ranks lower than Zambia, but the other 7 indicators rank high or medium-high risk. Zambia's median ranks are medium risk, presenting a safer reputational risk environment for investment, although there are still clear risks present to Chinese companies operational in Zambia. The main risk identified stems from Zambia's anti-Chinese rhetoric that

can result in actions taken against Chinese citizens. This is a factor that needs to be continuously monitored, as with all political risk.

6.3 So What?

As indicated throughout chapters one and two, reputational risk and its place in political science is complicated. Existing research on reputational risk is mainly sourced from the commerce field but looking at the works presented from a political perspective, its importance in risk analysis is clear. Reputation is an intangible asset but is of the utmost importance to companies, even to companies such as CNPC or CNMC.

South Sudan was assigned an overall rating of 36/50, and Zambia, 28/50. Chinese operations in South Sudan have seen an increase in pushback from the South Sudanese public and there have been incidents where opposition has turned violent. However, some of this sentiment stems from Chinese actions and is therefore not a reputational risk presented by South Sudan. The sentiment in Zambia is a strong anti-Chinese one, creating on-ground opposition to Chinese presence in the country.

South Sudan's source of wealth stems from oil, being the most oil-dependent country in the world. Humanitarian aid is the other source of wealth for South Sudan, a source that is often extorted to benefit the government. Zambia shares a similar dependency, with their wealth being governed by copper. Zambia does present a safer investment environment for international companies, with many operating in their mining industry. This attracts and contributes greater FDI than in South Sudan, contributing further to their national wealth. Despite this, Zambia is still highly reliant on debt relief, having a debt burden of over US\$17 billion. Zambia does not have the correct systems in place to help them capitalise on their mineral wealth. These issues can be traced back to the privatisation and nationalisation processes in Zambia's past. Corruption is present in both countries, but more so in South Sudan than Zambia. All Chinese state-owned enterprises are pressured by government to maintain a clean bill regarding bribery and corruption. South Sudan also suffers greatly from black market rent-seeking, contributing to its contentious sources of wealth. South Sudan's sources of wealth present themselves as more controversial than Zambia's, hence the higher ranking of 5/5 versus Zambia's 3/5 under this indicator.

The intent with wealth is another indicator where South Sudan far outweighs Zambia. South Sudan emphasises security spending with half their total government spending being on this. Wealth is often also siphoned into government officials' hands and not used for intended

purposes. The same can be seen with the extortion of humanitarian aid; only 6% of government spending is on health and education in a country with the world's largest spill over humanitarian crisis. These are the reasons for the rating of 4/5. On the other hand, Zambia is far less controversial in their spending. The greatest threat stems from the responsibility of social service provisions falling to companies in the Copperbelt, including CNMC. Zambia is on the receiving end of much debt relief and loans. How these funds are spent has not been disclosed to the public, however, there has not been obvious extortion as seen in South Sudan. Zambia's main issue is mismanagement of wealth, presenting no real threats to CNMC's reputation. The rating for Zambia was a 2/5.

Location is one of two indicators where South Sudan and Zambia are relatively equal. Both rank on the low risk side, South Sudan with 2/5 and Zambia 1/5. South Sudan's reliance on Sudan for export pipelines and ports is what increases their rating slightly. The shutdown of oil production showed the upper hand Sudan has over South Sudan. There are also oil fields that are still contested along the border that could be under CNPC's control if Sudan was not contesting them. CNPC is reliant on the transit system in Sudan, which does leave the relationship vulnerable to conflict. Other than this no other threats exist. Zambia is also reliant on other countries for exportation routes; however, no incidents have been reported along these routes and they have posed no threats to CNMC. Both countries are bordered by countries with higher security and political risk ratings, but nothing has occurred between South Sudan or Zambia and their neighbours that would be a threat to CNPC/CNMC's respective reputations.

The regulatory environments of both Zambia and South Sudan are contentious and present medium-high risk levels in both cases. Knowledge of the legal and regulatory environment of a country a company wishes to operate in is vital to maintaining a positive reputation and reducing reputational risk. A study conducted by Han et al (2018:130) found that most Chinese companies operating in Africa face political risks that have arisen from volatile institutional contexts and underdeveloped regulatory environments. This places further emphasis on the importance of this indicator and the role it plays in creating risk.

Both South Sudan and Zambia have poorly enforced regulatory environments that are often volatile. The RGI scored South Sudan 80/100 and Zambia 50/100. South Sudan's ambitious agenda allowed for the greater score than Zambia however, the score does not reflect enforcement, an area in which South Sudan is far less apt than Zambia. CNPC has comfortably mitigated risks in this area through entering joint ventures with the government of South Sudan

and other investors. Nevertheless, environmental regulations need special attention as not abiding by these can lead to great pushback from citizens or NGOs. South Sudan's lack of institutional quality on this aspect therefore poses a risk to CNPC. A similar situation can be seen in Zambia. The other factor to consider in Zambia is that foreign companies are often the 'fall-guy' when the countries poor regulations lead to negative issues. The anti-Chinese rhetoric in Zambia results in much of the negativity being focused on CNMC.

The next indicator considered is product – in South Sudan's case oil and Zambia, copper. Since the most recent oil shutdown, South Sudan has struggled to increase its output to investors (CNPC) expectations. Zambia's copper production is very impressive but is historically linked to the political changes in the country, making for a volatile environment. This, coupled with Zambia's increased political instability, requires continuous monitoring. Both CNPC and CNMC have exposed themselves to the increased reputational risks of being operational in the extractive industries. This is a topic that was touched on in chapter two and again in chapters four and five. Any operations in the extractive industries, regardless of where one is operating, immediately increases reputational risk exposure. There are multiple common threats that face companies active in the extractive industries, of which any can manifest into reputational risks. South Sudan's current humanitarian crisis therefore places CNPC at even higher risk than CNMC. South Sudan was ranked 5/5 for this indicator and Zambia 4/5.

South Sudan's capability to manage its product – oil – is a high-risk factor for CNPC. A loss of 14 Chinese workers lives in 2018 as a result of security risks in the oil industry presents extensively high reputational risks to CNPC. The civil war may have ended in 2018 but the instability still exists and challenges the government's capability to efficiently manage their product. Grievances from locals against the government's mismanagement of oil, oil producing areas and oil revenues are often aimed at operational companies. In South Sudan's case, CNPC is the main company operational and therefore the target of these grievances. These factors contributed to a rating of 5/5 for South Sudan. Zambia's rating of 3/5 stems from the government's poor position it was placed in during the privatisation process, a problem that has not yet been rectified. CNMC is not faced with reputational risks resulting from this poor position of the government. The greatest risk facing CNMC is the shifting of blame for issues from the government to companies operational.

Both Zambia and South Sudan rate 1/5 for the commercial purpose of their respective products. South Sudan exports most of their oil to other countries; their lack of industrialisation prevents

them from acquiring the vast amounts of oil they produce. Zambia also has little use for copper in its primary form; Zambia exports their copper to countries that will turn the product into secondary or tertiary goods that Zambia then imports. These processes carry no reputational risk to CNPC or CNMC.

How South Sudan and Zambia conduct business was the last factor to be considered under each chapter, looking at sustainable business practices and transparent and timely reporting thereof. Socially and environmentally responsible business practices are lacking in South Sudan. The economic feasibility of the oil fields is also uncertain, with one recent exploration, bringing the rating to 4/5. CNPC's reputation is at risk when choosing to be operational in a country that is the focus of much media due to its humanitarian crisis, placing CNPC's operations under a media microscope. Environmental issues have also been brought to light due to the government's poor administration of oil areas and environmental regulations, a serious source of reputational risk with multiple stakeholders affected. This can be seen in the assessment of Zambia – the attention of international environmental NGOs has been focused on areas negatively affected by mining, which has resulted in substantial environmental damage. Socially, Zambia has aimed and achieved in creating some sustainability through their Green Jobs Programme, which contributes to their rating of 3/5, signifying medium risk to CNMC's reputation. The economic feasibility of Zambia's copper resources further promotes this risk rating. The reliance of the country on debt relief and the policies that accompany this must be acknowledged but is not considered a reputational risk.

The final indicator is that of transparent and timely reporting. Both countries suffer from corruption throughout all institutions, already increasing the risk value as the Chinese government has strict policies regarding corruption. EIA experts in South Sudan were quoted on the lack of transparency that the oil sector suffers from, combining two major sources of reputational risk. Furthermore, Nilepet⁹⁰ has not published yearly audit reports, creating the precedent that other companies do not have to follow suit. For Zambia, the lack of information provided on the privatisation processes that led to many issues in the copper industry is already an issue of poor reporting. Revenue declarations by ZEITI have also stopped being produced and information on debt management plans are unavailable. The threat presented here is a loss of public support that can lead to on-ground opposition. South Sudan was rated 4/5 and Zambia, 3/5.

⁹⁰ Nilepet is South Sudan's state-owned oil company.

For Chinese companies, the largest stakeholder and one of massive concern is their own government. CNPC and CNMC are both state-owned enterprises under the supervision of branches of government and receive funding from government, therefore it is vital that they maintain a positive reputation with the Chinese government. However, China has started changing the way they conduct business as has been eluded to throughout this study. They have acknowledged that the host-country's government's assessments of their operations can be strengthened by the public. Social groups and actors are stakeholders they need to consider, as how they perceive Chinese firms' operations can influence the host government and policymakers' decisions (Han , et al., 2017:142). Acknowledgement of this has seen the increase in community interaction and CSR from Chinese firms, including CNPC and CNMC.

CNPC is the only major international oil company operating in South Sudan, monopolising the industry. The continued positive relations between the two governments is a factor that might play a role in CNPC choosing to stay in a country where the reputational risks are so high. CNMC competes with other international companies in Zambia, however production levels maintained in Zambia are very high and worth the risk of remaining in a country where the anti-Chinese rhetoric is strong. Both countries do not have diversified economies and have a lack of capability in managing their products, relying on international firms for economic growth and investment. Reducing reputational and political risk, in general, is something that will assist these two countries in attracting further investment in the hopes of developing their nations and economy's. Reputational risk is of increasing importance and cannot be neglected by any parties involved in business deals and practices.

6.4 Recommendations for Future Research

Several recommendations and deductions can be taken away from the research and analyses conducted in this study. Chapters one and two eluded to the links between political and reputational risk, although there is not a plethora of academic literature linking the two. Most of the literature surrounding reputational risk is still anchored in the commerce field, as seen from the sources of information used. This can create a lack of understanding of how important reputational risk and the way in which it should accompany political risk analyses. Further research into reputational risk should be conducted within the political risk field to assist in creating these links and further understanding.

Secondly, as seen in chapter three, there are not many analysis tools available to assess reputational risk. The model created by Swanepoel et al (2017) was additionally the only

qualitative model made available. Many of the existing models are used by the commerce field and focus on quantitative methods. This is not completely suitable to the field of social sciences or political risk, hence the changes that occurred for this study's model. A further recommendation for future research would be the possible design of a completely new model; indicators such as commercial purpose of product did not add value upon reflection. This could be accredited to the fact that many African, and other developing countries, do not have the tools to manufacture their natural resources and rather export them as primary resources. This indicator could have more value for developed countries where there can be controversial use of products. This study has proven that there is a necessity for reputational risk analysis to take place and that the current model does hold value, however, a specific model for the political field would be the next step for reputational risk analysis.

A major challenge faced during the research phase of this study was the lack of information available on South Sudan. The country is only eight years old and has been withered by civil war for the past five years. This factor should be considered for future research and hopefully, as time goes on, more information will be made available to improve the analysis for South Sudan. Unfortunately, due to the ongoing instability and aftereffects of the recently ended civil war, field-based research is not a safe option. Reaching out to fellow academics present in South Sudan or employed at South Sudanese universities could assist in overcoming this challenge.

A final implication that has emerged from this research regards the Chinese and their way of conducting business. Most of the Western media and the Western world has scrutinised the way in which China conducts business with Africa. In some cases, this scrutiny is most definitely necessary, but in other cases it is not. As has been deduced, China has started to adopt and conform more to 'Western' ideals of conducting business, placing increased focus on community interaction and CSR. CNPC and CNMC have often stepped in to provide where the respective governments have not, mainly due to poor capacity. Companies operating in foreign countries are also guided by the regulations and government of that country – two areas where both South Sudan and Zambia are lacking. Further research into China's changing attitude and the effects it is having on African countries, where most of their business is focused, would be a great contribution to this subject. Further research into this would also offer insight into the changing global power dynamics that have been witnessed over the past two decades.

6.5 The Finale

This final section brings an end to this study. The research in this study formed part of the wider discussion in political science, with a focus on political risk and political risk analysis. Reputational risk, often a consequence of realised political risk, was investigated. The relationship between reputational risk, Chinese state-owned enterprises operating in the extractive industry and African countries was the main concentration of the last forty thousand words. Political risk, as indicated in chapter two, is an ever-evolving field. Reputation did not carry the same risk fifty years ago as it does today. As seen through the case studies of this study, reputation can make or break a company and their ability to function as a profitable entity.

This study also tackled the subject of Chinese investment in Africa, a subject often studied in political science and international relations. The relationship between the two has been placed under a microscope over recent years, with many seeing China as the new 'coloniser' of Africa. The investment relations between China and Africa are, however, not often focused on the Chinese perspective, as in this study. This offers an additional contextualisation of this investment relationship and insight into how China is changing its business practices.

Many African countries are still considered to be troubled territories for investment, with their reputations sometimes deflecting investment opportunities. Companies find it difficult to invest time, money and other resources into a context where their reputation with their respective stakeholders can be harmed. This factor is something that Chinese companies take advantage of. Investing in South Sudan when very few other companies would, due to the ongoing violence and humanitarian crisis, has allowed CNPC to monopolise the oil industry.

CNMC has also found success in Zambia's Copperbelt, consistently producing profits despite facing a strong anti-Chinese sentiment on the ground. The reputational risks presented by these two investment climates has not steered Chinese investment away. This may be attributed to these company's greatest stakeholder being their own government. This does not imply that they have it easier than other companies, the Chinese government places great emphasis on monitoring their state-owned enterprises and their operations. What it does mean is that the reputational risks Chinese companies' priorities are different from those of other companies, where investors or customers are the main stakeholders.

A reputational risk analysis should be a component of the decision-making processes of any company when considering starting operations in a new territory. The analysis can also take place even if companies are already operational, as it did in this study. This assists in identifying areas where risk mitigation is necessary. In a world where information can travel across the globe in less than an hour, reputational risk should be a higher priority risk for all multinationals.

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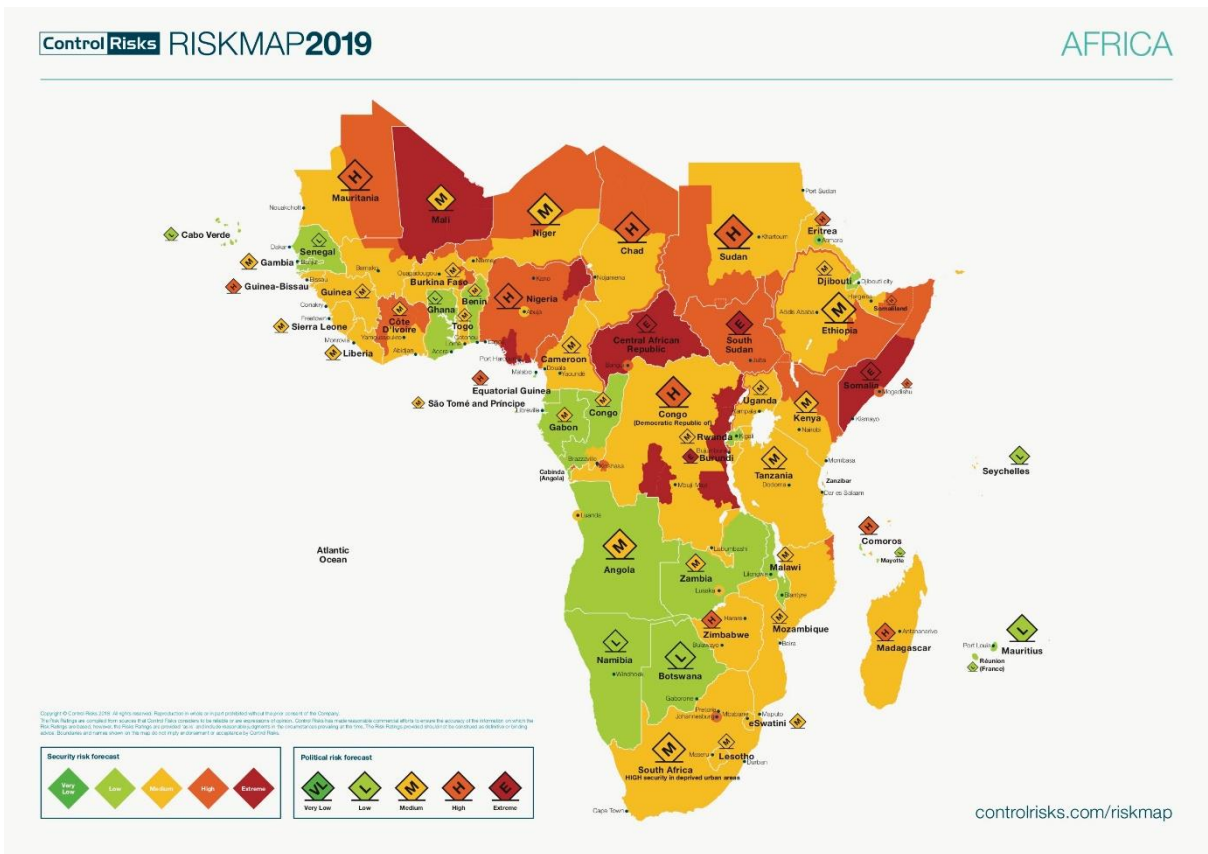
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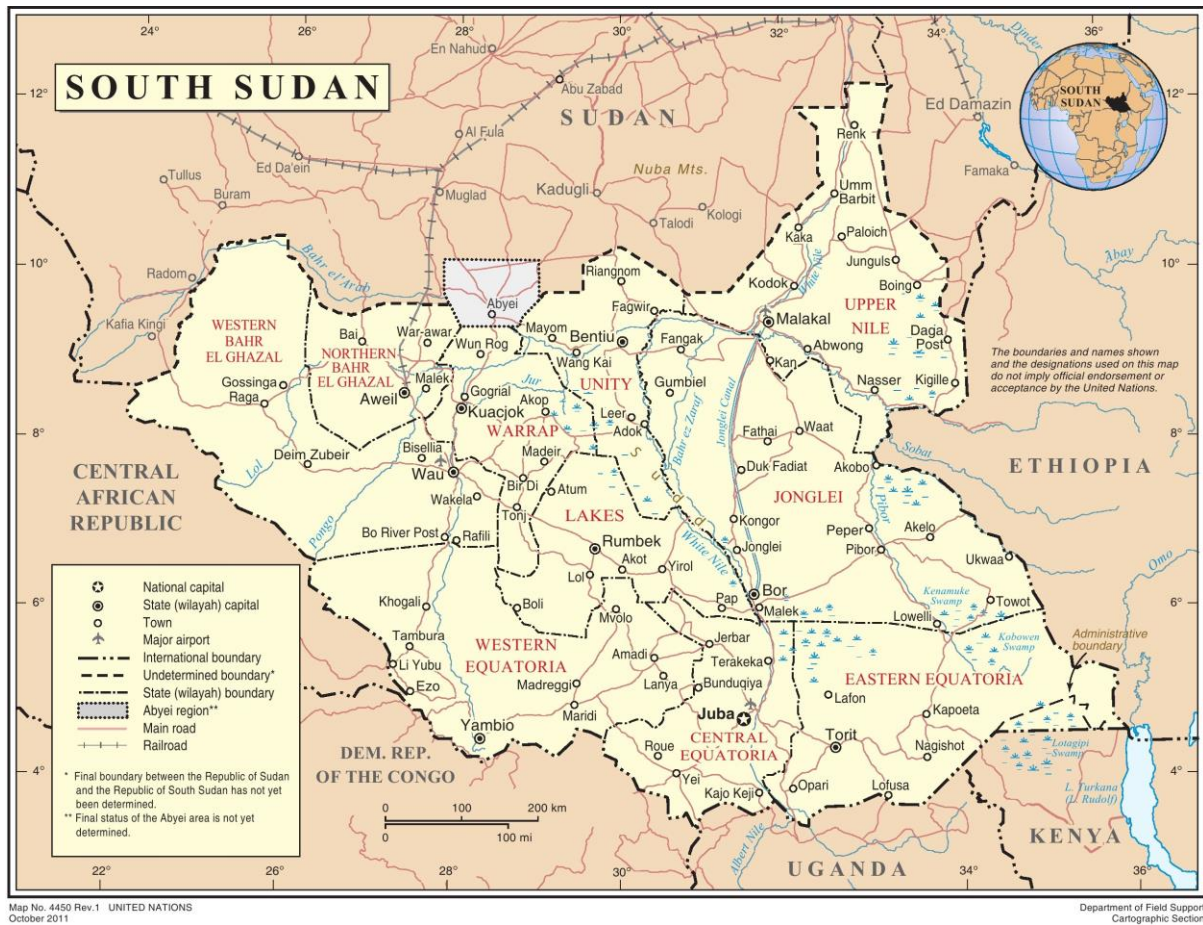
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Appendix A



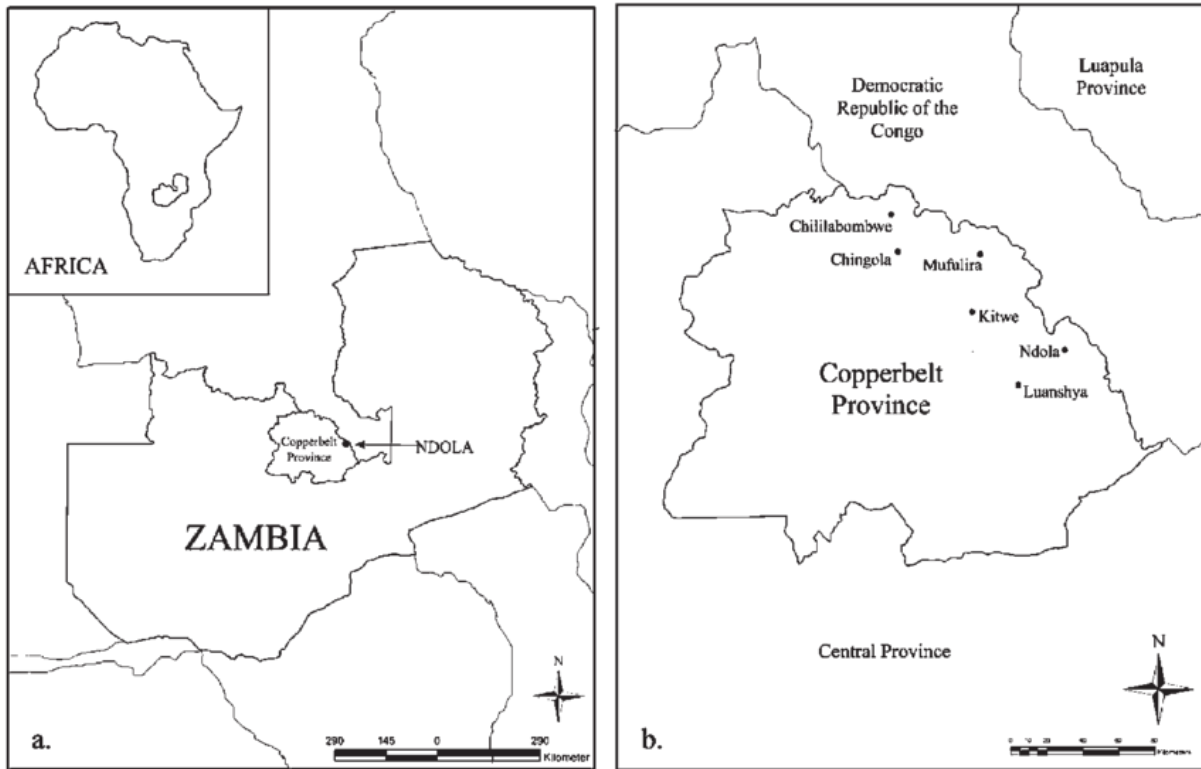
Source: (Control Risks , 2019).

Appendix B



Source: (Reeves, 2015).

Appendix C



Source: (Liddle, Mager, Nel., 2014:169).