Chapter 10
Managerial Disclosures and Corporate Control

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ABSTRACT

This chapter contributes to the understanding of the Anglo-Iranian Oil Company (AIOC, now British Petroleum) practices in Iran and provides a clear picture of how nationalisation evolved on 1st May 1951. Nationalisation brought into sharp focus issues affecting key AIOC stakeholder groups, including Iranian employees, Iranian government, and UK investors, which became the subject of claim and counter-claim from the AIOC board and Iranian nationalist opinion. As a consequence of these disputed claims, a propaganda battle became a crucial ingredient of the crisis, not least because a key objective of the AIOC management was to defend itself from the claims. In fact, this was crucial in absolving the company from any blame for the international crisis. As a result, in considering the above effects, by using AIOC as a case study, a textual analysis of the Chairman’s Statement to Shareholders is conducted, and the validity of the Statement is reappraised with reference to historical evidence.

INTRODUCTION

The oil industry was vital to the British Empire after the Great War. By the 1950s no single raw material was as important to the global economy as oil. Britain was extremely conscious of its limited oil resources and was dependent on finding it in remote parts of the world. Therefore, the British government’s willingness to maintain control became more necessary and British firms were looking overseas and in particular to the Middle East.

Since oil was important for Britain in order to satisfy the whole range of consumer requirements and to generate a considerable source of govern-
ment revenue, the Anglo Iranian Oil Company (AIOC) was considered a suitable company upon which Britain could rely because it had significant political, strategic and economic power in Iran in the 20th century. In 1914, British interests influenced the Iranian deposits according to its own requirements, where the British government controlled oil for its navy and acquired a majority shareholding (51%) stake in the AIOC (Chandler, 1990; Millward, 2007). The AIOC was Iran’s main source of income because it had in Iran the world’s largest refinery, the second largest exporter of crude petroleum, and the third largest oil reserves which were mainly managed by the British government and British private citizens (Abrahamian, 2001). Moreover, AIOC was so dominant within the Iranian economy that it was effectively a state within a state and regarded to all intents and purposes as an arm of the British Admiralty and the British Strategic policy (Cited in Marsh, 2003).

The company’s operations in Iran had a significant impact on the Iranian economy developing important consequences for British and U.S foreign policy in the 1950s. Nationalism and democracy had become new features of the Iranian political landscape. At the top of the agenda for nationalist politicians was the renegotiation of previous concessions made by the Shah on better terms for Iran. Notwithstanding the economic and military importance of Iran, British politicians and the senior management of AIOC have been accused of arrogance in their dealings with successive Iranian governments (Elm, 1992; Heiss, 1997). A series of unsuccessful negotiations culminated in the assassination of one Prime Minister in March 1951 and the subsequent ratification of nationalisation of AIOC’s Iranian assets by the Shah on 1st May 1951. The repercussions were serious, not just for the company, which lost a significant proportion of its assets, but for wider regional and indeed global geopolitics. The nationalisation therefore had major consequences for Anglo-Iranian relations and represented a blow to British imperial power which did not fully recover even after the Central Intelligence Agency (CIA) sponsored coup to remove Musaddiq in 1953. Different phases and aspects of the dispute have been researched extensively, including Anglo-American relations, British and American foreign policies international law, covert operations, Iranian nationalism, the development of the Iranian oil industry, and the impact on international oil companies, including the AIOC.

Whilst the Iranian Prime Minister Mohamed Musaddiq (Bamberg, 1994) was conscious of the strategic importance of Iranian oil to the AIOC and the British government, his political priorities were to address the poverty of the people by securing control over their natural resources and the right to greater revenues. In addition to taxation, the Iranian government became concerned about discrimination against Iranian employees and misadministration. As a result, in considering the above effects, by using AIOC as a case study, contrasts are drawn between the AIOC’s management’s public view of the crisis and the actual events as documented in the literature, official papers, and financial records. Furthermore, the role of Sir William M. Fraser (1888-1970), the AIOC’s chairman (1941-1956) is examined in detail because his actions had important consequences for key AIOC stakeholder groups, including domestic investors and Iranian employees and society. In these respects, consideration is also given to how AIOC’s management attempted to influence the lobbying process and news agenda to counter the accusations of the Iranian nationalists.

According to one common view, Fraser’s chief asset was his commercial acumen, and his chief weakness his lack of political insight (Elm, 1992; Sampson, 1975). Fraser’s actions had important consequences for key AIOC stakeholder groups, including domestic investors and Iranian employees and society. The nationalisation crisis brought these into sharp focus, and they became the subject of claim and counter-claim from the AIOC board and Iranian nationalist opinion. In