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978-0-521-86844-0 - Beyond Corporate Social Responsibility: Oil Multinationals and Social Challenges

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## ONE

## Introduction

Companies are increasingly expected to assist in addressing many of the world's pressing problems including climate change, poverty and HIV/Aids. According to a 2007 survey by the consultancy firm McKinsey carried out among the chief executive officers (CEOs) of companies, 95 per cent of those questioned believe that society has greater expectations than it did five years ago that companies will assume public responsibilities. More than half of the CEOs believe that these expectations will further increase significantly during the next five years (Bielak *et al.* 2007).

Corporate Social Responsibility (CSR) has emerged as a business approach for addressing the social and environmental impact of company activities. With increasing expectations placed on business, one needs to ask if CSR is able to fulfil these larger expectations. Therefore, the aim of this book is to analyse CSR's potential and limitations for contributing towards wider societal 'challenges'.

The central part of the book investigates the potential of CSR for addressing three challenges in the business–society relationship: the environment, development and governance. The book suggests that CSR has some potential for dealing with environmental issues such as carbon emissions and oil spills. Yet, in general, the current CSR

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agenda largely fails to deal with the three challenges, and a number of important economic and political issues are not yet addressed. The book explains the existing constraints to CSR and provides some recommendations in the conclusion.

The author firmly believes that any discussion of the CSR agenda must have a solid basis in reality. Too many books on CSR are based on superficial examples and unfounded arguments. Too many books fail to appreciate the importance of context in the evolution of CSR. That is why this book has focused in greater depth on companies from a single industry: the oil and gas sector, which includes two of the world's leaders in the CSR movement: Shell and BP. Throughout the book we also look at companies from developing nations such as Brazil's Petrobras and South Africa's Sasol. Business now operates in a global arena and companies from the so-called emerging markets such as China, India and Brazil are increasingly expected to make social and environmental contributions.

The book is based on more than ten years' experience in researching the oil and gas industry, and the author has had hundreds of conversations with oil company staff, civil society advocates, government officials, consultants, development specialists, journalists and local people around these issues.<sup>1</sup> The author has published widely on CSR and leads CSR training courses for managers and public sector decision-makers in conjunction with a consultancy firm. The lessons from this research are general and go beyond the oil and gas industry.

### What is CSR?

In order to understand the meaning of contemporary CSR, it is useful to go back in time. While CSR is a recent term, preoccupation with

<sup>1</sup> In the course of this research, the author has interviewed staff from the following multinational oil companies: Shell, BP, Exxon, Chevron, Total, Agip, Statoil, BG Group, Petrobras and PDVSA.

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business ethics and the social dimensions of business activity has a long history. Business practices based on moral principles and ‘controlled greed’ were advocated by pre-Christian Western thinkers such as Cicero in the first century BC and their non-Western equivalents such as the Indian statesman and philosopher Kautilya in the fourth century BC, while Islam and the medieval Christian church publicly condemned certain business practices, notably usury.

The modern precursors of CSR can be traced back to the nineteenth-century boycotts of foodstuffs produced with slave labour, the moral vision of business leaders such as Cadbury and Salt, who promoted the social welfare of their workers, and the Nuremberg war crimes trials after the Second World War, which saw the directors of the German firm I. G. Farben found guilty of mass murder and slavery (Ciulla 1991; Pegg 2003; Sekhar 2002). From a historical perspective, CSR is simply the latest manifestation of earlier debates as to the role of business in society. What is new, according to Fabig and Boele, is that ‘today’s debates are conducted at the intersection of development, environment and human rights, and are more global in outlook than earlier in this century or even in the 1960s’ (Fabig and Boele 1999).

While the role of business in society seems to have been changing for some time, there is no agreement among observers on what CSR stands for or where the boundaries of CSR lie. Different people have interpreted CSR differently. For example, CSR means different things to practitioners seeking to implement CSR inside companies than to researchers trying to establish CSR as a discipline. It can also mean something different to civil society groups than to the private sector.

The responsibilities of companies in developing nations are also defined differently depending on the social – especially national – context (Baskin 2006; Frynas 2006); for instance, CSR among Malaysian firms is partly motivated by religious notions and Islam’s prescriptions of certain business practices (Zulkifli and Amran 2006); the specific flavour of CSR in Argentina can be partly attributed to

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Argentina's economic crisis in December 2001 (Newell and Muro 2006); while companies in South Africa are forced to address racial inequality as a result of the unique legacy of apartheid (Fig 2005). Companies in Malaysia focus on charitable activities, especially around Muslim and Chinese religious holidays, while companies in South Africa focus on black empowerment schemes. Therefore, CSR or 'being socially responsible' clearly means different things to different people in different countries.

Although these differences in the understanding of CSR are perhaps inevitable given the wide range of issues that companies need to deal with, they can be frustrating, not least to company managers who might prefer a bounded concept similar to quality control or financial accounting. Instead, managers find themselves wrestling with issues as diverse as corporate governance, environmental management, corporate philanthropy, human rights, labour rights, health issues and community development. To complicate matters further, new terms have entered the vocabulary of business and civil society – concepts such as corporate accountability, stakeholder engagement and sustainable development, aimed variously at replacing, redefining or complementing the CSR concept (see Table 1.1 for an overview). Indeed, some companies now prefer to use terms such as 'sustainability' or 'citizenship' instead of CSR.

We should also be careful not to superimpose Western notions of CSR on the reality in developing countries. Philanthropy is a key example. In Europe, the notion of philanthropy was previously dismissed and often not regarded as part of CSR because it does not relate to the impact of the day-to-day operations of the firm. But firms are primarily expected to actively assist their local communities in many developing countries. When asked by the World Business Council for Sustainable Development (2000) how CSR should be defined, people in Ghana, for instance, stressed local community issues such as 'building local capacity' and 'filling-in when government falls short'. Studies on countries as diverse as Nigeria, Pakistan,

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TABLE 1.1: *Multiple interpretations of Corporate Social Responsibility*

Interpretation	Relevant authors
Business ethics and morality	Bowie 1998; ; Freeman 1994; Phillips 1997, 2003; Phillips and Margolis 1999; Stark 1993
Corporate accountability	O'Dwyer 2005; Owen <i>et al.</i> 2000
Corporate citizenship	Andriof and Waddock 2002; Carroll 2004; Matten and Crane 2005
Corporate giving and philanthropy	Carroll 1991, 2004
Corporate greening and green marketing	Crane 2000; Hussain 1999; Saha and Darnton 2005
Diversity management	Kamp and Hagedorn-Rasmussen 2004
Environmental responsibility	DesJardins 1998; McGee 1998
Human rights	Cassel 2001; Welford 2002
Responsible buying and supply chain management	Drumwright 1994; Emmelhainz and Adams 1999; Graafland 2002
Socially responsible investment	Aslaksen and Synnестvedt 2003; Jayne and Skerratt 2003; McLaren 2004; Warhurst 2001
Stakeholder engagement	Donaldson and Preston 1995; Freeman 1984, 1994
Sustainability	Amaeshi and Crane 2006; Bansal 2005; Korhonen 2002

Source: Amaeshi and Adi 2007.

Malaysia and Argentina suggest that philanthropic activities are considered the main social responsibility of business in these countries (Ahmad 2006; Amaeshi *et al.* 2006; Newell and Muro 2006; Zulkifli and Amran 2006). Many philanthropic activities by business in developing countries are likely to be genuine and may be guided by traditional notions of business obligations with regard to health or education issues, in the absence of the sort of government action that is taken for granted in developed countries. Yet these activities are not regarded as part of CSR by many Europeans, whose governments

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have shouldered a large element of the social responsibilities related to health, education and poverty alleviation.

Given the problem of encompassing different viewpoints in one inclusive definition of CSR, Blowfield and Frynas (2005) have proposed to think of CSR as an umbrella term for a variety of theories and practices that each recognise the following: (a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond that of legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g., within supply chains); and (c) that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society. This general definition is adopted in this book.

### CSR among oil multinationals

The oil and gas sector has been among the leading industries in championing CSR. This is at least partly due to the highly visible negative effects of oil operations such as oil spills and the resulting protests by civil society groups and indigenous people. Prominent examples of publicised industry ‘debacles’ include oil tanker accidents such as the *Exxon Valdez*, indigenous unrest such as anti-Shell protests in Nigeria and the involvement of oil companies in human rights abuses such as BP in Colombia. Such events – widely reported by the media – have put particular pressure on multinational oil companies such as Shell and BP, which are perhaps more visible and whose brand image is more vulnerable than companies in some other sectors of the economy. The oil and gas industry appears to be under greater pressure to manage its relationship with wider society, as illustrated by the following quotation from Lord Browne, former chief executive of BP:

Geology has not restricted the distribution of hydrocarbons to areas governed as open pluralistic democracies. The cutting edge of the issue

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of corporate responsibility comes from the fact that circumstances don't always make it easy for companies to operate as they would wish. (Quoted in Levenstein and Wooding 2005, 9)

Notwithstanding the motives of the executives, oil companies pay greater lip service to CSR and they engage more with local communities than companies in many other sectors. This is demonstrated by, among other things, the remarkable growth of corporate codes of conduct and social reporting, not only among European or American firms but also the likes of Petrobras, Indian Oil and Kuwait Petroleum. Oil companies have also embraced major international initiatives such as the United Nations Global Compact and the UK government's Extractive Industries Transparency Initiative (see Chapter 2). A small number of multinational oil companies have invested in renewable energy as an alternative source of income and have pioneered climate change initiatives.

Furthermore, oil companies have initiated, funded and implemented significant community development schemes. Oil companies now help to build schools and hospitals, launch micro-credit schemes for local people and assist youth employment programmes, particularly in developing countries. They participate in partnerships with established development agencies such as the US Agency for International Development (USAID) and the United Nations Development Programme (UNDP), while using non-governmental organisations (NGOs) to implement development programmes on the ground.

Given the importance of CSR activities, the oil and gas sector is an instructive example for analysing to what extent the CSR movement can transform practices in an industry. However, the most important observation is that CSR has been adopted in the industry very unevenly. Royal Dutch Shell and BP have specifically been recognised as leaders in corporate citizenship world-wide. They spearheaded major international CSR initiatives such as the Global Compact and the Global Reporting Initiative (GRI). They have become significant players in renewable energy and have professed

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to combat carbon dioxide emissions in order to minimise their contribution to global warming. But other companies appear to have done less. The improvements by Shell and BP have often been contrasted with the relative lack of social and environmental engagement by Exxon – a company of a similar size to Shell and BP (Rowlands 2000; Skjærseth and Skodvin 2003).

However, Exxon has also quietly made voluntary improvements to its social and environmental performance. As Chapter 2 demonstrates, oil companies from developing countries such as Brazil's Petrobras are also initiating social and environmental programmes and have spent large sums on local community development. This suggests that the CSR movement is global in nature and that there are increased expectations of what companies are responsible for.

The analysis of oil company CSR activities in Chapter 2 suggests that the companies most engaged in CSR are companies that expand internationally and are dependent on international financial markets and international reputations. This can help to explain, for instance, the growing engagement in CSR initiatives by companies such as Brazil's Petrobras, which are increasingly operating at an international level. In contrast, CSR has not been fully embraced by companies from other developing countries, such as China and Malaysia. For instance, PetroChina continues to invest in the most repressive regimes such as those in Burma and Sudan, where the major international oil companies have long withdrawn due to human rights concerns.

One needs to remember that most of the world's oil and gas is controlled by state-owned companies from non-Western countries such as Russia, Saudi Arabia and Iran – not corporations such as Exxon and Shell. Indeed, about half of the world's known oil and gas reserves are controlled by just five national oil companies in the Middle East – Saudi Aramco, Kuwait Petroleum, the National Iranian Oil Company, Sonatrach of Algeria and the Abu Dhabi National Oil Company (Marcel and Mitchell 2005). Six out of the world's ten largest oil and gas producing companies are state-owned,



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and more than half of the world's fifty largest oil and gas companies are state-owned (United Nations Conference on Trade and Development 2007, 117). The oil and gas production of the state-owned companies is largely domestic; for instance, the national companies of Saudi Arabia, Iran and Mexico have no foreign production (see Table 1.2). The social and environmental records of these companies are usually under less scrutiny from civil society groups; we know, in fact, very little about their social and environmental impact. What follows is that multinational companies primarily drive the CSR agenda and we mainly focus on these companies in this book.

### The aims and structure of the book

The main aim of the book is to investigate the potential of the oil and gas industry to contribute to society in its broadest sense. To put it differently, the book investigates the extent to which the development of local communities, society at large and indeed the natural environment can benefit from the voluntary activities of oil companies.

Therefore, the core chapters of the book focus on the key areas of CSR policies where oil companies are expected to make a positive contribution: improvements in environmental performance, development and governance. We want to ask to what extent the current CSR agenda can yield real improvements in these three areas.

Chapter 2 analyses the logic of CSR strategies. By providing a number of theoretical perspectives, it tries to make sense of the factors behind engaging with CSR activities. It scrutinises the CSR activities of eight oil companies around the world – ranging from Shell and BP to Indian Oil and Venezuela's PDVSA – to compare and contrast what factors pushed them to engage in CSR.

Chapter 3 provides a context for CSR in the oil and gas sector in order to set the scene for the rest of the book. It explains the basics of oil and gas production and introduces the main actors.

TABLE 1.2: *The world's largest oil and gas companies, by total production, in 2005*

Rank in world production	Company	Home country	State ownership (%)	Total production (million barrels of oil equivalent)	Foreign share of total production (%)
1	Saudi Aramco	Saudi Arabia	100	4 148.8	0
2	Gazprom	Russia	51	3 608.5	0.2
3	NIOC	Iran	100	1 810.7	0
4	Exxon	USA	0	1 725.7	82.7
5	Pemex	Mexico	100	1 666.2	0
6	BP	UK	0	1 572.6	82.1
7	Royal Dutch Shell	Netherlands/UK	0	1 482.7	70.5
8	CNPC/PetroChina	China	100	1 119.6	16.8
9	Total	France	0	997.6	75.1
10	Sonatrach	Algeria	100	911.8	0.2

Source: United Nations Conference on Trade and Development 2007, 117.