Corporate Social Responsibility in the Oil and Gas Sector

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Abstract

Corporate Social Responsibility (CSR) has emerged as an important approach for addressing the social and environmental impact of company activities. Yet companies are increasingly expected to go beyond this. They are now often expected to assist in addressing many of the world's most pressing problems, including climate change and poverty. With increasing expectations placed on business, this article asks if CSR is capable of delivering on these larger issues based on evidence from the oil and gas sector. Looking at companies from developed countries, such as Exxon and Shell, as well as companies from emerging economies, such as Brazil's Petrobras and Hungary's MOL, the article investigates the potential of CSR for addressing three important challenges in the business-society relationship: the environment, development and governance.

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Corporate Social Responsibility in the Oil and Gas Sector[1]

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 amongst the chief executive officers (CEOs) of companies, 95% of the CEOs 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.[2]

Corporate Social Responsibility (CSR) has emerged as a business approach for addressing the social and environmental impact of company activities. Companies from the oil and gas sector have been at the centre of CSR development. With increasing expectations placed on business, one needs to ask if CSR is able to fulfill these larger expectations. Therefore, the aim of this article is to analyse CSR's potential and limitations for contributing towards wider societal "challenges". The article investigates the key areas of CSR policies where oil companies are expected to make a positive contribution: improvements in environmental performance, development and governance. We ask to what extent the current CSR agenda can yield positive improvements in these three areas.

The article is based on the author's book *Beyond Corporate Social Responsibility – Oil Multinationals and Social Challenges*.[3] It is the culmination of more than 10 years of researching the oil and gas sector 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.[4] In addition to interviews with oil company staff and insiders, the findings are based on the analysis of twenty social and environmental reports of selected oil and gas companies.[5]

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 business ethics and the social dimensions of business activity has a long history. Business practices based on moral principles and 'controlled greed' have been advocated by pre-Christian western thinkers such as Cicero in the first century BC and their non-western colleagues such as 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.[6] 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".[7]

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 it does to researchers trying to establish CSR as a discipline. It can also mean something different to civil society groups than it does to the private sector.

The responsibilities of companies in developing nations are also defined differently depending on the social – especially national – context[8]; for instance, CSR among Malaysian firms is partly motivated by religious notions and Islam's prescriptions of certain business practices[9]; the specific flavour of CSR in Argentina can be partly attributed to Argentina's economic crisis in December 2001[10]; while companies in South Africa focus on issues of racial inequality as a result of the unique legacy of the apartheid[11]. 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" can mean 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 animal rights, corporate governance, environmental management, corporate philanthropy, stakeholder management, labour rights, health issues and community development. To complicate matters further, new terms have entered the vocabulary of business–society debates such as corporate accountability, stakeholder engagement and sustainability, aimed variously at replacing, redefining or complementing the CSR concept. 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 and highly relevant to the oil and gas sector. In Europe, the notion of philanthropy is often dismissed and usually 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 expected to actively assist their local communities in many developing countries. Studies on countries as diverse as Nigeria, Pakistan, Malaysia and Argentina suggest that philanthropic activities are considered the main social responsibility of business in these countries.[12] Many philanthropic activities by business in developing countries are likely to be genuine and may be guided by traditional notions of business obligations with regards 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 CSR by many Europeans, whose governments have shouldered many 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 have proposed to think of CSR as an umbrella term for a variety of theories and practices that each recognize 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, be that for reasons of commercial viability or to add value to society.[13] This general definition is adopted in this article.

CSR in oil and gas

The nature of an industry determines CSR concerns and the social concerns are highly diverse between different industries. For instance, the clothing industry raises issues of employment conditions and the responsibility of firms within complex global supply chains[14], fast-food restaurants raise the issue of obesity[15], while the main issue in the tobacco industry is the long-term health effects of smoking[16]. These concerns may vary between countries, but the key concerns related to an industry's operations are typically shared in most countries, and this is no different in the oil and gas sector. Nigeria is very different from Azerbaijan, but some of the key concerns related to the oil and gas sector are very similar in both countries – the environmental impact of the industry such as oil spills, the social impact of the industry on local communities and macro-economic difficulties created by the inflow of oil revenues.

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 day-to-day 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 their 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 quote 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 of corporate responsibility comes from the fact that circumstances don't always make it easy for companies to operate as they would wish.[17]

Notwithstanding the motives of the executives, oil companies pay greater lip service to CSR and they engage more with local communities than multinationals in many other sectors. This is demonstrated, amongst others, by 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 CSR initiatives such as the United Nations Global Compact and the UK Government's Extractive Industries Transparency Initiative. A small number of multinational oil companies have invested in renewable energy, as an alternative source of income once the world's oil and gas resources run out.

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 programs, particularly in developing countries. They participate in partnerships with established development agencies such as the U.S.

Agency for International Development (USAID) and the United Nations Development Programme (UNDP), while using non-governmental organizations and specialist consultancies to implement development programs 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 to combat carbon dioxide emissions in order to minimize 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.[18]

However, Exxon has also quietly made voluntary improvements to its social and environmental performance. As this article 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 author's findings suggest 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 and Indian Oil, which are increasingly operating at an international level. In contrast, CSR has not been fully embraced by companies from a number of developing countries such as China and Malaysia. For instance, PetroChina continues to invest in the most repressive regimes such as Burma and Sudan, where the major international oil companies have long withdrawn.

One needs to remember that the majority of the world's oil and gas is owned 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 and six out of the world's ten largest oil and gas producing companies are state-owned.[19] 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. The social and environmental records of these companies are usually under less scrutiny from civil society groups; we know even 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 article.

CSR and Environment

The nature of oil and gas operations involves many potential negative environmental effects, particularly during exploration and production, including land clearance, oil spills and natural gas emissions.[20] Environmental risks of oil and gas operations are heightened because oil and gas deposits are often located in developing economies near areas of high biological diversity and high ecological vulnerability, such as rain forests, mangroves and protected national parks.[21]

While the use of terms such as "CSR" and "Sustainability" is relatively new, oil companies were prepared to voluntarily introduce some pollution-related initiatives from at least the 1960s. However, much of the public attention on oil companies was focused on marine pollution at the time. With the general rise in environmental awareness around the world since the 1970s, the quantity and scope of voluntary environmental initiatives have greatly increased and the environmental agenda has widened to include broader issues such as climate change and biodiversity.

As one of the key signs of environmental engagement, oil companies now provide extensive environmental reports. Indeed, several comparative international studies have demonstrated that environmental reporting amongst oil and gas companies is more extensive compared with other sectors including utilities and various branches of manufacturing, although this has partly been a result of the industry's greater environmental impact. In addition, a high percentage of oil companies uses third party verification of their environmental reports, compared with companies in most other sectors.[22] According to the 2005 survey of CSR reporting by the consultancy firm KPMG, sixteen out of twenty oil and gas companies listed among the 250 largest corporations in the world reported on corporate responsibility issues, which represented a significant increase from 58% to 80% between 2002 and 2005.[23]

The author of this article has analysed recent social and environmental reports published by twenty oil and gas companies to ascertain the use of the "core" environmental indicators. The results are summarized in Table 1. "Reported" information means that the exact figures or data has been provided by the company. "Limited" information means that either no exact figures or no precise information has been provided (e.g. related information, a graph without a specific figure for effluents, or no precise information on the application of the ISO 14,001 standard).

Table 1 demonstrates that Western multinational firms provide a substantial quantity of data. With regard to emerging market companies, there are huge differences in environmental reporting and environmental practices between different companies. Brazil's Petrobras, South Africa's Sasol and Hungary's MOL have particularly sophisticated reporting mechanisms and sophisticated environmental management systems. In contrast, the Chinese oil company CNOOC and the Malaysian oil company Petronas not only have underdeveloped reporting mechanisms but also do not seem to address a number of important environmental issues in their operations.

Obviously, environmental reporting is merely a means to an end, with the end being improved environmental practices. The reports allow us to trace performance over time and they provide evidence that oil companies have made some improvements in their environmental performance over the years.

The most impressive evidence on environmental improvements in the oil and gas sector is provided by a historical comparison of oil spills from oil tankers. Since the 1970s, the number of large oil spills (above 700 tonnes) caused by oil tankers and other vessels has dramatically decreased from 25.2 spills per year in the period 1970-1979 to 3.6 spills per year in the period 2000-2007. During the 1970s, about 30 major oil spills per year was not unusual. During the period 2000-2007, the highest annual number of major oil spills was five in 2004. The volume of oil spills has also dramatically decreased over the last three decades, except for the year 2002 when the Greek-owned oil tanker "Prestige" sank off the coast of Spain.[24]

The most impressive evidence on environmental improvements by a single company were BP's efforts to reduce gas emissions. In 1997, BP set itself the target of reducing greenhouse gas emissions from its own facilities by 10% from 1990 levels by 2010. The company was able to attain this goal nine years early at the end of 2001. The company then set itself a new target of ensuring that net emissions do not increase between 2001 to 2012.[25] Since 2001, BP has made further progress. According to the company's 2006 Sustainability Report, BP's greenhouse gas emissions declined by a further 22% between 2002 and 2006, while the company's oil production increased in the same period by over 30% and its natural gas production almost doubled. The Norwegian company Norsk Hydro was the only other company, which was able to achieve significant reductions in emissions despite an increase in oil and gas production. The other companies' performance was far less impressive than that of BP and Norsk Hydro. Shell's and Chevron's gas emissions also declined from 2002 to 2006, but this could be attributed to declining oil production. The gas emissions of other companies such as Exxon and Repsol have actually increased significantly.

At this point it should be pointed out that even corporate leaders in "sustainability" such as BP and Norsk Hydro may decide that commercial interests are more important than ecological concerns, as demonstrated by the construction of the BP-Statoil Baku-Ceyhan pipeline through the catchment area for mineral springs in Georgia.[26] Nonetheless, the contrast between the greenhouse gas emissions policy of BP and the other companies points to the importance of the corporate will and the need for changes to internal management systems for achieving environmental improvements. Even if examples such as BP and Norsk Hydro are an exception rather than the rule, they demonstrate the great ability of multinational companies to restructure internal operations and re-deploy resources in order to achieve significant improvements in environmental performance.

The potential of CSR for addressing environmental issues can be explained by the convergence of environmental and business interests. Both companies and the environment can benefit from a reduction in gas flaring and energy efficiency, as the sale of previously flared natural gas or energy savings can lead to better financial performance. Indeed, studies show that a business case or win-win outcomes of CSR is strongest with regards to environmental issues, as opposed to "social" issues such as health and safety, labour standards or local development.[27] Interviewed oil company managers and engineers have narrated various examples of instances when they were proud of their company's environmental improvements, for instance, reducing carbon dioxide emissions, implementing a zero-spill policy for the company or replacing steel tubes with chrome tubes. In various instances, company staff discovered that there was a convergence of environmental and business interests.

Interview data also suggests that companies have been successful at environmental improvements because the technical and managerial capabilities of oil companies are particularly suited to addressing environmental issues. As the author has previously argued, when environmental improvements can be reduced to distinct technical tasks, oil companies can perform CSR tasks to a high standard.[28] Environmental improvements such as new oil pipelines, improved forms of combustion or new production processes require similar engineering and managerial skills to those needed by oil companies in their commercial day-to-day operations, for instance, increasing production levels or reducing production costs. Technical problems need to be solved, new production processes and patents need to be developed, project teams need to be formed, and so on.

There are various constraints to better environmental performance. Companies are often reluctant to make environmental improvements without external government pressure. There is still little comparability between environmental reports of different companies. Even the most responsible oil companies sometimes decide that commercial interests are more important than ecological concerns, for instance, when developing oil fields next door to a national park. Finally, the consumption of the oil and gas products sold by oil companies is inherently harmful to the environment due to carbon emissions. Nonetheless, the author's findings suggest that CSR has the greatest potential for addressing environmental issues.

CSR and Development

The nature of oil and gas operations involves many interactions between companies and local communities during exploration and production, which has resulted in demands on oil companies to invest in the development of their local communities. At the same time, government agencies such as U.S. Agency for International Development and inter-governmental organizations such as the World Bank have in recent years made claims about the positive role that CSR could play in contributing to international development goals such as poverty alleviation and health improvements.[29]

Oil companies are now making significant contributions towards community development schemes such as hospitals, schools and micro-credit schemes. Global spending by oil, gas and mining companies on community development programmes was estimated at over US$ 500 million per year in 2001[30], but the figure is certainly much higher today. The four oil majors – Shell, Exxon, BP and Chevron – spent almost US$ 500 million between themselves in 2006 alone.

The biggest spender was Venezuela's state-owned company PDVSA, which reportedly spent US$13.3 billion on "social development" in 2006 (up from US$ 6.9 billion in 2005). Other state-owned companies such as Saudi Aramco and Russia's Gazprom have also spent billions of dollars on social investments, although exact figures are frequently not available for many of these companies. Among the commercially operating multinational oil companies, the biggest spender was probably the Brazilian oil company Petrobras, which reportedly spent 545 million Brazilian Reais (about US$ 255 million) on "social investments" in 2006, compared with US$ 156 million by France's Total, US$ 140 million by Shell and US$ 138 million by Exxon (see Table 2). Most of the funding was targeted at developing economies, where most oil production takes place and where the development needs are greatest. But a number of Western companies have also made considerable investments in their home country, notably Exxon spent US$ 79 million on local communities in the United States in 2006 (57% of the company's social investment budget for that year).

Table 2 provides an overview of community investments by 20 companies to ascertain to what extent oil companies fund community development schemes and what specific focus areas they target. All 20 companies support education initiatives and 18 out of 20 companies support health initiatives aimed at local communities (in addition to education or health initiatives for their workers). However, there is a wide variation in the scope of initiatives and the level of integration. The initiatives range from occasional financial donations to schools/hospitals to the construction of new schools and other facilities. Some initiatives appear to have little integration with the company's activities and exhibit few signs of a "social strategy" (e.g. a single donation to a medical facility), other initiatives exhibit a high level of integration with the company's operations (e.g. skills training that may help local people to find employment in the oil and gas sector). Among emerging market companies, South Africa's Sasol and Brazil's Petrobras appear to have much more sophisticated and integrated development programs than, for instance, China's Sinopec or Hungary's MOL.

However, while there is a wealth of community investments, the current reporting on these activities is very weak. The companies' social and environmental reports contain only input and no output measures for their social investment. In other words, companies provide information on how much they have spent on education or philanthropic activities or how many local stakeholders participated in a project, but they provide no measures of how effectively the money was spent. Not even the level of spending is comparable between companies because it is not clear what is included and what is not included (e.g. Exxon's figure includes Public Relations-related donations to arts institutions and spending on public policy research). Not a single company systematically measures the effectiveness of its development interventions, either in terms of scientific measures (e.g. changes in health indicators related to health spending) or in terms of a value-for-money analysis. Oil companies seem to be simply satisfied that they spend money on "development". Therefore, we do not know to what extent the community investment has actually yielded tangible benefits for the local people.

Needless to say, community investments can be highly beneficial for stakeholders in the absence of externally verified measures of success and one could point to various examples of success, including Shell's micro-credit schemes in Nigeria and Chevron's agricultural initiative in the Philippines. One must also remember that the beneficiaries of oil company funded projects often have no alternative sources of support, particularly in developing economies where the government has failed in its development role. Yet the author's findings suggest that, for all the money that oil companies have spent on development initiatives, there are surprisingly few tangible benefits for local stakeholders.

The positive impact of social investments is severely constrained by the companies' own motives for community development work. Firms may embark on social investments in order to follow public relations priorities, in order to enhance employee motivation or in order to maintain a "licence to operate" (i.e. maintaining a stable working environment). These corporate priorities often constrain development efforts. They may explain the earlier observation that corporate reports do not provide any indicators of how effectively the community development funds are spent, and that projects are often driven by short-term expediencies rather than the long-term development needs of a community.

In contrast to best development practice advocated by the World Bank and other development institutions, CSR initiatives have often been conceived by the 'helpers' in the air-conditioned offices of oil companies and consultancies rather than through ongoing participation with the beneficiaries, which follows the logic of CSR serving corporate priorities. Where oil companies have consulted local communities, the consultation exercises have often been superficial and grossly inadequate. The involvement of the beneficiaries of CSR in implementing projects tends to be limited or non-existent and it may be limited at best to awarding contracts to locally based companies. While the involvement of locally based companies can be beneficial as it creates local employment, the author's experiences from Africa are that these companies are often linked to local strongmen and the award of contracts simply serves to maintain a stable working environment.

Above all, CSR initiatives are inherently flawed due to social attitudes of oil company staff, that means, social values that guide decisions made by company staff. The people in charge within oil companies (i.e. the company directors, asset managers etc.) usually have a managerial and/or engineering background. They are highly capable of dealing with technical and managerial challenges, which is reflected in their approaches to CSR. As Michael Blowfield argued, “The technologies used in CSR reflect a preference for measurement, quantitative data-processing and particular means of communication (…) segmenting information into quantifiable components to aid the process of management”.[31] This preference can help to explain both the success of many environmental improvements and the failure of many social investments. When the corporate will is present and the CSR challenge can be reduced to distinct quantifiable technical and managerial tasks, oil companies can perform CSR tasks to a high standard. As discussed earlier, BP’s target to reduce carbon dioxide emissions led by the company’s CEO John Browne was very successful. A technical/managerial challenge such as carbon dioxide emissions can be reduced to ‘metrics’, ‘indicators’ or ‘guidelines’ and job performance can be quantified. Therefore, technical/managerial approaches can successfully address environmental issues, but they are often insufficient in addressing complex social problems where soft skills, patience and inter-personal skills are much more important.

The limitations of technical/managerial approaches can be seen in the manner, in which local communities are consulted. A consultation exercise is inherently qualitative and inherently discursive requiring in-depth discussions and the building of a good rapport with people. Treating consultation from a technical/managerial perspective leads managers to speed up discussions with local communities and to try to achieve an immediate goal (such as a written list of local demands) rather than trying to build bridges with the local people and spending lengthy periods discussing the causes of problems. In the words of one development professional in Nigeria: ‘Shell learned fast new approaches and paid lip service but corrupted the practice, for example, PRAs [participatory rural appraisals] done in two days like an engineering exercise’. This approach helps to explain the companies’ failure to involve the beneficiaries of CSR.

There are many examples of community investments, which lack basic equipment, which are unsuitable for the community or which are dysfunctional in some way. As one extreme example, an oil company built three town halls in one African local community in order to maintain a stable working environment in the process of building a pipeline, because the company followed the short-term interests of three community chiefs who wanted to benefit personally from construction contracts. As another extreme example, a company built a fish processing plant in a local community, which was situated a long distance from trade markets, as a result of insufficient local consultation.

In summary, local community development initiatives or "corporate social investments" in their current form have limited potential for fostering genuine local community development in practice.

CSR and Governance

Many oil-producing countries have suffered from economic underdevelopment, political mismanagement and military conflict, a well-known phenomenon called the 'resource curse' supported by many quantitative and qualitative studies.[32] In most developed economies, the effects of the resource curse were minimised thanks to the diversification of the economy and prudent government policy. Furthermore, a small number of resource-rich developing countries — in particular, Botswana, Chile, and Malaysia — have not only been able to beat the "resource curse" but have achieved high economic growth.[33] The biggest difference between successful and unsuccessful resource-rich countries was the quality of governance.[34] In successful resource-rich countries, revenues from extractive industries exports were utilised to stimulate economic growth elsewhere in the economy, while the economy was insulated from resource curse effects through government policies such as the establishment of a "revenue stabilization" or a "savings fund".[35] In other words, the main challenge for oil-producing countries is how to improve wider societal governance.

Oil companies have, until recently, rejected the notion that they should actively address macro-level governance issues. Governance in a society is ultimately related to the role of the government and companies have been reluctant to become drawn into the sphere of politics. While the notion of non-involvement in government affairs has not radically changed, a number of multinational oil companies including Shell, BP and Statoil now recognise that they can play a positive role in strengthening governance.

BP in Azerbaijan is arguably by far the most wide-ranging attempt by a single company to address governance shortcomings. The company has publicly stated that it is prepared to 'engage in policymaking processes and offer assistance, as appropriate, on the development and implementation of policy agendas, which include for consideration addressing poverty alleviation, revenue management, and domestic energy'.[36] BP has co-operated with the government of Azerbaijan to facilitate expert advice on the management of the country's state oil fund and oil revenues. Furthermore, the company operates a regional development initiative to initiate large-scale and cross-regional development interventions in Georgia, Turkey and Azerbaijan, with the

European Bank for Reconstruction and Development and the World Bank as partners. Governance is to be improved through 'civil society capacity building, strengthening the rule of law, and proffering expert advice and assistance'.[37]

The initiatives by BP in Azerbaijan are exceptional in a number of ways, but other multinational companies also profess to contribute to better governance. Out of twenty oil and gas companies analysed, eleven explicitly state that they address governance issues. However, the scope of governance initiatives is very narrow. All of the eleven companies have largely focused on a single governance issue: revenue transparency, which refers to openness and access to information with regard to company payments and government revenues from oil, gas and mining. Nine of these companies are based in developed countries. Only two out of eleven companies – Brazil's Petrobras and South Africa's Sasol – are based in emerging markets, which reflects the relative sophistication of these two companies in addressing CSR challenges (see Table 3).

Revenue transparency is now regarded as the priority initiative to address governance in resource-rich countries by policy makers, the major oil companies and non-governmental organisations. It is assumed that transparency can contribute towards minimising the effects of the resource curse through beneficial political, economic and social effects. The main expected benefit of transparency is the reduction of corruption. Indeed, one transparency expert stated: 'The word "transparency" is often used as a synonym for the absence of corruption. Transparency is also thought of as a solution or vaccine against corruption'.[38]

BP was a pioneering oil company in terms of revenue transparency by publishing payments to the governments of Angola and Azerbaijan in 2001. None of the other oil companies followed BP's lead in offering to individually publish their payments to governments. However, by 2009, 17 oil companies formally supported the Extractive Industry's Transparency Initiative (EITI). The EITI was launched in 2003 to improve the transparency of revenues paid by oil, gas and mining companies to host governments, which in turn would limit corruption related to such revenues. A key strength of the initiative was that it would involve all companies in a member country, which avoids the resentment of the host government that BP faced in Angola. Another strength was the requirement to involve civil society and independent auditors, which helps to properly oversee the implementation of the EITI in a given country.

Given that the EITI is the main governance initiative supported by oil companies, the author has investigated its impact. The available evidence suggests that the design and remit of the EITI have inherent limitations. Indeed, more than six years since the launch of the EITI, only one country has so far complied with the EITI validation – Azerbaijan. However, even the transparency of Azerbaijan is questionable. While the Economist Intelligence Unit praised the accountability of SOFAZ (the revenue savings fund in Azerbaijan), it pointed out that ‘International financial institutions have expressed concern that, although management of SOFAZ has proved relatively transparent, that accountability is lost once the funds are transferred for use into the state budget’.[39]

Above all, the key limitation of the EITI and current transparency initiatives is their focus on revenues, not spending. In the words of one recent study on Azerbaijan, ‘The main weakness of EITI is the lack of reporting and monitoring of the government’s spending of oil revenues’.[40] Indeed, the premise of the EITI that revenue transparency provides benefits for implementing countries and investors is unproven and speculative, given that existing research focuses on government spending – not revenue transparency. Studies on transparency that found positive benefits of transparency focused on the transparency of spending and actual outcomes of spending. Previous research measured the transparency of individual countries according to quantitative indicators such as macro-economic forecasts[41], the publication of International Monetary Fund reports on the macro-economic performance of countries[42] and the quality of government budget documentation[43]. All of these studies imply that the quality of decision-making on spending is crucial, in terms of complying with international norms and accounting standards, publication and independent verification of government budgets and the actual outcomes of decision-making. Not a single study quoted in footnotes focused specifically on the transparency of revenues; indeed, there appears to be an assumption among researchers that transparency of revenues is a secondary concern. There is no scientific basis for the assertion that revenue transparency leads to better social or economic outcomes. Further limitations of the current governance initiatives have been analysed in *Beyond Corporate Social Responsibility – Oil Multinationals and Social Challenges*.

In summary, while governance remains the main challenge for extractive industries, the main governance initiative – the EITI – has serious shortcomings and is unlikely to duplicate the success stories of countries such as Botswana or Chile.

Conclusions

The evidence suggests that CSR has the greatest potential for addressing environmental challenges. Corporate reporting on the environment is steadily improving, new environmentally friendly technologies are being developed and tangible improvements are being made by some companies. Environmental challenges benefit from the specific expertise that companies possess, as technical and managerial skills greatly assist environmental improvements. Most crucially, environmental initiatives appear to lead to win-win outcomes: the environmental impact of companies is reduced, while companies benefit from lower operating costs, better equipment and innovation.

In contrast, the evidence suggests that CSR has less potential for addressing problems related to community development and governance. Companies could greatly benefit from better community relations and improved governance: fewer operational losses as a result of community dissatisfaction, less corruption, improved corporate reputations, and so on. The host countries could also greatly benefit from improvements in human development and governance, in terms of increased private investment, higher levels of education, better public services, and so on. However, companies appear to be reluctant to address the issue of governance, while their approaches to community development are often ineffective.

The findings from the author's book *Beyond Corporate Social Responsibility – Oil Multinationals and Social Challenges* suggest here are two deeper underlying reasons as to why oil companies fail to effectively address development and governance concerns. First, the "business case for CSR" (that is, the use of social initiatives for attaining corporate objectives) sets limits on what such initiatives can achieve for broader society. While the business case has potential for successfully addressing environmental issues, making a business case for tackling poverty or governance failures is often much more difficult. Unlike development agencies, companies do not tend to prioritise overall development goals such as poverty reduction. Indeed, profit-maximising motives are often incompatible with good development practice

Second, multinational companies often fail to acknowledge the full extent of their interactions with society and politics and they do not accept responsibility for macro-level issues – issues concerning the society-wide impact of their industry. While companies clearly exercise political influence, they tend to reject the notion that they could play a constructive role in helping to address governance failures. In general, CSR debates appear to have marginalized debates on governance and macro-level solutions to complex society-wide problems. Yet CSR initiatives will not be able to tackle some of the key social and environmental challenges in the oil and gas sector without addressing governance.

The limitations of CSR do not imply that oil companies should do nothing about societal issues. Firms are pressured to engage with the social and environmental aspects of their operations and they may benefit from the opportunities that CSR offers. Individual companies can still do a lot to improve their relationship with wider society, but they need to re-consider their approaches and they need to join hands with non-traditional partners.

Table 1: Core Environmental Indicators Reported by Selected Oil Companies in 2006

Company	Country	Core Environmental Indicators					
		Hydrocarbon Spills	Discharges to Water	Greenhouse Emissions	Flared Gas	Energy Use	Environmental Management Systems
BP	UK	REPORTED	REPORTED	REPORTED	REPORTED	REPORTED	REPORTED
Shell	UK	LIMITED	LIMITED	REPORTED	REPORTED	LIMITED	LIMITED
Chevron	USA	REPORTED	-	REPORTED	LIMITED	REPORTED	REPORTED
Exxon	USA	REPORTED	REPORTED	REPORTED	REPORTED	REPORTED	LIMITED
Statoil	Norway	LIMITED	LIMITED	LIMITED	REPORTED	REPORTED	-
Norsk Hydro	Norway	LIMITED	LIMITED	REPORTED	LIMITED	REPORTED	-
Total	France	REPORTED	REPORTED	REPORTED	REPORTED	REPORTED	LIMITED
ENI	Italy	REPORTED	LIMITED	LIMITED	LIMITED	REPORTED	REPORTED
Repsol	Spain	REPORTED	REPORTED	REPORTED	-	REPORTED	REPORTED
OMV	Austria	LIMITED	REPORTED	REPORTED	-	REPORTED	LIMITED
CNOOC*	China	-	LIMITED	-	-	-	LIMITED
Sinopec	China	-	LIMITED	LIMITED	LIMITED	LIMITED	LIMITED
Lukoil	Russia	-	LIMITED	-	-	-	LIMITED
Gazprom	Russia	-	LIMITED	REPORTED	-	-	LIMITED
MOL	Hungary	LIMITED	REPORTED	REPORTED	-	REPORTED	LIMITED
Petrobras	Brazil	LIMITED	-	REPORTED	LIMITED	REPORTED	REPORTED
Petronas**	Malaysia	-	-	-	-	-	REPORTED
PKN Orlen	Poland	-	-	-	-	-	LIMITED
PTT	Thailand	LIMITED	LIMITED	REPORTED	-	-	LIMITED
Sasol	South Africa	-	LIMITED	REPORTED	-	REPORTED	LIMITED

* 2005 data was used for CNOOC due to the unavailability of the 2006 report
** 2007 data was used for Petronas due to the unavailability of the 2006 report

Table 2: Community Investments by Selected Oil Companies in 2006

Company	Country	2006 spending (US$ million)	Community Investment by Focus Area			
			Community Health	Community Education	Entrepreneurs / SMEs	Local sourcing
BP	UK	107	+	+	+	+
Shell	UK	140	+	+	+	+
Chevron	USA	91	+	+	+	+
Exxon	USA	138	+	+	+	+
Statoil	Norway	10	+	+	+	+
Norsk Hydro*	Norway	45		+	+	
Total*	France	156	+	+	+	+
ENI*	Italy	98	+	+	+	+
Repsol*	Spain	34	+	+	+	
OMV	Austria	n/a	+	+	+	
CNOOC	China	n/a		+	+	
Sinopec	China	n/a	+	+		
Lukoil	Russia	62	+	+		
Gazprom	Russia	n/a	+	+		
MOL	Hungary	n/a	+	+		
Petrobras*	Brazil	255	+	+	+	+
Petronas	Malaysia	n/a	+	+	+	
PKN Orlen	Poland	n/a	+	+		
PTT	Thailand	n/a	+	+	+	
Sasol	South Africa	n/a	+	+	+	+

* 2006 spending figure converted from local currency into US dollars, using currency exchange rates from the Economist magazine for 31 December 2006

Table 3: Support for Revenue Transparency by Selected Oil Companies in 2006

Company	Country	Support for Revenue Transparency	Formal EITI Supporter
BP	UK	+	+
Shell	UK	+	+
Chevron	USA	+	+
Exxon	USA	+	+
Statoil	Norway	+	+
Norsk Hydro	Norway	+	+
Total	France	+	+
ENI	Italy	+	+
Repsol	Spain	+	+
OMV	Austria		
CNOOC	China		
Sinopec	China		
Lukoil	Russia		
Gazprom	Russia		
MOL	Hungary		
Petrobras	Brazil	+	+
Petronas	Malaysia		
PKN Orlen	Poland		
PTT	Thailand		
Sasol	South Africa	+	

Footnotes

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[5] The analysis covered the reports of ten Western multinational companies (Shell, BP, Chevron, Exxon, Statoil, Norsk Hydro, Total, ENI, Repsol and OMV) and ten multinational companies from emerging markets (China National Offshore Oil Corporation/CNOOC, China Petroleum & Chemical Corporation/Sinopec, Lukoil, Gazprom, MOL, Petrobras, Petronas, PKN Orlen, PTT and Sasol).

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