

Corporate social responsibility in the oil industry management essay



Corporate social responsibility (CSR) is rapidly gaining importance for businesses all over the world. Over the decades, the concept of corporate social responsibility (CSR) has continued to grow in importance and significance. It has been the subject of considerable debate, commentary, theory building and research. In spite of the ongoing deliberations as to what it means and what it embraces, it has developed and evolved in both academic as well as practitioner communities worldwide. The idea that business enterprises have some responsibilities to society beyond that of making profits for the shareholders has been around for centuries. For all practical purposes, however, it is largely a post-World War II phenomenon and actually did not increase in importance until the 1960s and beyond. therefore, it is largely a product of the past half century.

The late 1980s saw a change in expectations when pressure was exerted by some environmental activists on entities that were seen as being environmentally irresponsible. Events such as the explosion at Union Carbide in Bhopal, India in 1984 and the oil spillage in Alaska in 1989 all but added weight to why corporations must be forced to treat the environment in a more responsible manner (Idowa 1989). The effect of the explosion in Bhopal of 1984 is still being felt by the unlucky residents nearly 20 years after the incident, Union Carbide on other hand, are still paying the legal costs of the incident up till now. It did not take much persuasion for companies and investors to accept that the environment is very important and any irresponsible damage to it will cost them dearly.

The fact that many companies in recent times issue annual CSR reports clears the doubts one may harbour as to whether or not these companies

<https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

consider that a duty of responsibility is owed to the public, be it local, national, or international. Ramanathan (1996) contended that there is a social contract between organisations and society. Jaggi and Zhao(1996) also supported the social contract view when they argued that organisations do not exist in vacuum, but are part of the society which creates and supports them. Society will not deal lightly with any company which fails to recognise and support important social values. However, organisations are aware that society will not hesitate to punish them of any irresponsible act or omission they commit.

Oil industry

The petroleum industry is a capital intensive one, operating in such an industry is important to almost every firm, Oil accounts for a large percentage of the world's energy consumption, ranging from 32% for Europe and Asia and up to 53% for the countries in the middle east America 44% and Africa 41%. (Sobel 1973, 2000, as cited on Wikipedia).

The oil and gas industry has been among the industries in spreading CSR messages. they attach much importance to their social and environmental impact and they engage more with the local communities than it used to be in the past. This shift is shown, inter alia the growth in corporate code of conduct and social reporting such as the Global Reporting Initiative and. (Frynas 2005). As oil is a non-renewable natural resource, the industry is challenged with eventual depletion of the world's oil, it is also a fossil fuel and when burnt gives carbon dioxide (CO₂) into the air which causes global warming, and so safety is the concern of the businesses operating in the petroleum industry.

<https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

This piece looks at Tullow oil's ethical and corporate social responsibility policies and practices and implications this have for the strategic, operational and governance arrangement in the organisation. Tullow oil's CSR practices dates back in the 1980s up till now. The chief Executive of Tullow oil is very much committed to pursuing ethical business and as such sees corporate ethical and moral behaviour essential, as a result of this, Tullow ensures that ethical behaviour is embedded in the organisation. Developing a sustainable business, good governance and corporate responsibility is Tullow oil's culture.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is gaining interest among researchers and practitioners globally. The definition and dimensions of CSR differ and that there is no clear agreement on what it means. CSR has been defined as an activity that rise above but includes profits making, job creation and the production goods and services (Oketch 2005). Some researchers argue that CSR is actually a precise activity that a business undertakes to perform its responsibilities to stakeholders (Rushton 2002). Other definitions include financial performance as a part of CSR. In line with this, a number of behaviours are named under CSR which include charitable activities, providing employee volunteer activities, donating to charity, undertaking environmental activities and showing commitment to health and safety (Maignan & Ralston 2002). Possibly the definition to rely on is Carroll's model (1979). Carroll came out with a four-part conceptualisation of CSR which comprises of legal, economic, ethical and philanthropic components. Carroll's mode argues that every organisational responsibilities rest on this economic

duties, which includes maximisation of profit and maintenance of a strong competitive position. Legal responsibilities include obeying legal rules. Ethical accountability mirrors societal standards, anticipation and habits that have not been put into law. Finally, philanthropic responsibilities are what the society anticipates of the organisation. These are separated from ethical responsibilities because they are of a charitable nature and so a business is not seen as unethical if it does not do such (Carroll 1991).

Despite Carroll's definition, the concept falls short of single and precise agreement of what it is. This limitation has been a problem for both practitioners and academics. It offers little direction regarding what action businesses should be undertake looking at different activities now considered to constitute CSR. For instance if a company reacts to a problem regarding to its business operations, such as the spillage of oil or an environmental disaster, does this constitute CSR? Does CSR only cover behaviour not required by society? In Carroll's definition, this is not the case in the sense that Carroll's definition comprises legal and economic accountability, which are both required. There are other definitions that argue CSR rise above being anticipated by society, which includes Carroll's, which comprises philanthropic elements. The lack of single definition of CSR also prevents a unified provable opinion of CSR and its impact as such researchers cannot judge CSR properly.

Whilst a generally agreed description of CSR will greatly improve progress in the field, how to come out with a single description is a difficult process, in the sense that CSR may be seen to mean different to different group of stakeholders. To shareholders it could mean profits maximisation. To <https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

Governments it may mean meeting legal demands and making sure products and work environments are safe. To customers CSR may mean high quality products at affordable price, and perhaps ethical or philanthropic activities. Lastly, to other stakeholder groups like, employees, society and the community, what CSR signifies differs to an extent. so while a concise single definition of CSR could be appropriate it is believed that an adequate concept of CSR has to be made in terms of each group of stakeholder.

Stakeholder engagement

The word stakeholders is big in scope, it means people or a group of people who critically focus on corporate actors (Bowmann-Larsen and Wiggen, 2004). At issue for CSR are societal expectations of corporate behaviour. In a stakeholder view, CSR means the business has an obligation towards its stakeholders, who can affect, or affected by corporate politics and practices (Bloom et al 2000: Lantos, 2001). The fit between company performance and stakeholders' values is important in the sense that stakeholders who disagree with the organisation's course of action may have the power to replace management, or prevent the execution of corporate strategy (Brammer and Pavelin, 2004). Since stakeholders have many preferences in respect of organisation's actions, processes and outcome (Fombrun and Shanley, 1990), it is a problem to manage and balance the bulk of stakeholder expectations and their conflicting values(Nill and Shultz, 1997). and that the agendas and expectations of stakeholders need to be identified so as to actively manage and sustain proper differentiation between them (Knox and Maklan, 2004). To achieve the successful implementation of CSR, managers must build bridges with their stake holders through formal and

informal dialogue and engagement practices in the pursuit of common goals to convince them to support the firm's chosen strategic course. (Andorif and waddock, 2002). Tullow oils's Stakeholders engagement is very good. Before any project is undertaken, Tullow engages in an open dialogue with the villagers to identify the problems of the villagers and then get them involved in the planning and execution of selected projects. This approach is evident in their Working with Communities (WwC) approach. This approach is grouped into the provision of basic human needs, health, education and development of local enterprise, the theme which is actually in line with the United Nations Millennium Development Goal which aims at alleviating poverty. (www. tullowoil. com, 2008, 19).

Organised, stakeholders groups have an opportunity to address the gap between the stakeholders' goal and values and real company behaviour, by making the company aware of dubious incidents ranging from workplace harassment to environmental offences, corruption etc.

Tullow Oil plc

Tullow Oil is an independent oil and gas exploration and production group. It was established in 1985 by Aidan Heavey, the Group's Chief Executive. The group's activities include oil and gas production and development, and exploration. The group has operations in Europe, Africa, South Asia and South America.

The group operates through one business segment: oil and gas exploration, development and

production and the sale of hydrocarbons and related activities. The group has a portfolio of over 85 production and exploration licences in 22 countries and operates in four core areas: Europe, Africa, South Asia and South America. Its production is 60, 000 barrels of oil equivalent per day (boepd).

The group's European production comes from its gas assets in the UK Southern North Sea;

exploration licences in Portugal and the Netherlands. In Africa, Tullow Oil has 47 licences in 14 countries, 17 producing fields, approximately 745 mmboe booked reserves and resources and majority interests in two world-class basins in Ghana and Uganda.

In South Asia, the group focuses on gas production in Bangladesh, converting Pakistan operations group also has well established production in the UK and Bangladesh, and high-impact exploration acreage positions in Portugal, Pakistan, French Guiana and Guyana.

(Datamonitor, 2009).

Tullow's business strategy

Tullow has a business model which is different and not easy to match. The company focuses on four areas where real value can be included:

Enhancing the existing asset base

Explorations

Acquisition of assets within the organisation's core areas

Management of high grade portfolio, which entails adjusting on certain areas, which depends on the price of oil.

Conducting operations with respect for the people and environment in which it operates.

(www.tulloil.com).

Tullow aims to be the best company in the industry, as a result of this, Tullow hires the best people with positive attitude they could come across to join their team. The company has a good management with right kind of commercial, financial skills that are crucial to Tullow ' s business. Most of their business entails operating fields and facilities for the oil giants and their competitors and as such having a management team competent enough to securing and finishing difficult deals on an international basis is very important.(www.tulloil.com).

Tullow prides itself as having creative and flexible way to solve operational and commercial challenges in the industry, where this is not in place, Tullow works with partners and government to make sure reserves of oil and gas are managed and processed in the best way. By adopting a difficult commercial focus and using the current technology, Tullow can ensure that past marginal fields become beneficial and the lives of mature fields are extended.

(Moran 2007)

Tullow's CSR Strategy

Apart from oil and gas exploration, Tullow oil engages in a number of CSR activities in areas where it operates. Tullow's CSR strategy is embedded into their business and it is about being a responsible corporate citizen in the communities where it operates by sharing part of its success with these communities. The group's core values are:

Clear policies, processes and procedures throughout Tullow;

Strong social and community investment programmes through their Ww C

Initiatives (engaging in dialogue with the community to identify their problems)

Continuously improving health and safety performance, even in times of rapid

Minimising and managing the environmental impact of our operations, and

Ongoing and significant investment in our people and organisations. (www.tulloil.com)

As an independent oil company, Tullow approaches its CSR commitments in a unique manner which ensures positive links with local communities in which it works. The core criterion for Tullow's support revolves around assisting children, improving education, and providing basic health and enterprise developments. Initial dialogue is held with the community to establish a clear priority then the team will look at ways of achieving these improvements in a sustainable way. (Onepetro.org).

<https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

Tullow's CSR projects are long-term, it makes positive impact on the community. The Group's CSR criteria is basically on the extent to which each project can solve community problems, its sustainability and its importance to the organisation's activities.

Examples of Tullow's CSR project

Investing in education in Ghana

In most of the rural communities where Tullow operates, primary and secondary schools are low in terms standards. Bringing up the standards is important for the long term development for those communities. In this regards, Tullow has developed an approach which involves enhancing the infrastructure standards in those schools such as buildings, furniture, equipping students with learning materials and assisting teachers through training and lodging and salaries. Tullow oil has renovated Half Assini secondary School Science laboratory in Ghana, this refurbished Laboratory will offer 1600 student in that part of the country with their science work. Tullow has also offered scholarship to a number of students to pursue a course of studies in petrochemical engineering in tertiary institutions in Ghana.

(www.tulloil.com 2008, 19)

Protecting eye sight in Paskistan and Bangladesh

In most areas where Tullow operates in Pakistan and Bangladesh, eye care services are unobtainable, as a results, Tullow has opened and run free eye clinics in these communities with the Blind welfare Society and Cornilla Eye

hospital . this facility has screened 1673 people with 173 people undergoing eye operation. (www. tulloil. com, 2008, 21).

Developing local enterprise

With their WwC programme designed to provide communities where it operates with short and long term economic benefits. Tullow concentrates on developing local enterpriseactivities, this approach is in tuned with the United Nations Millennium Development Goals which is aimed to alleviate poverty, improving health education standards. Most projects undertaken under this project in the past have been in Uganda, Ghana, Namibia, and Gabon and has taken about 75% of Wwc budget. (www. tulloil. com, 2008, 19).

Uganda

In Uganda, Tullow undertook two important projects. The first is the lifejacket project where Tullow worked together with a local business recruiting people from the communities to make world class lifejackets. These were made to be used by the local fishermen on the lake and the project came along with incentives package to ensure the jackets were used.

The other project was a bee keeping co-operative where co-operatives were formed in 10 villages to build and manage 200 bee hives with a plan to expand to 2000. Sunflowers and fruit trees were planted to give additional nectar for the bees and to increase production. This project was sustainable and would function without Tullow's further involvement.

The result of the lifejacket project has saved lives among the fishermen and the commercial venture from the bee keeping has also improved the economic life of the villagers and improvement in their living standards. Tullow's CSR approach depicts involvement of and agreement with the communities which are sustainable.

Tullow oil's approach in Uganda is seen as a fusion of philanthropic and community initiatives approach which are sustainable and innovative that have developed from their core projects. (www. onepetro. org).

In Uganda, again, Tullow has been improving infant mortality rate, improving poor hygiene standards while at the same time making health services accessible to rural areas by constructing maternity centre to serves the rural communities. This project has had a good impact by improving infant mortality rate, it has safely delivered 85 babies, the centre also provides family planning and immunisations services and has immunised about 420 pregnant women and 1104 children since the project.(www.tulloil.com). Engaging in these projects, Tullow oil has actually shown the value of CSR where the communities in which they operate are made to enjoy some of the firm's success.

Reporting CSR

Recently the trend for global official reporting of CSR and Enviromental Health and Safety(EHS) activities is increasing, as there is increasing pressure on organisations to be good global citizens. The method of reporting and quality differs. Many businesses report their CSR/ EHS activities, giving detailed information on their economic, environmental and social projects and its impact.

The reporting guidelines, G3 were issued by the Global Reporting Initiative (GRI), spelling out good practice in reporting and verification standards. The GRI's objective is to provide detailed non-financial performance indices to make organisations activities clear and measurable over time so that businesses can be held to account by stakeholders if there is no improvement.(Steir 2006).

While CSR/EHS reporting is growing, the number of businesses whose activities have been verified is very low. However, importance is attached to verification because CSR/EHS reports can attract attention and so the information provided by businesses should be reliable and transparent.

As a result of this, Tullow deems its external reporting very important in keeping its stakeholders informed and sharing its experiences. In this regard, the Group has increased its accountability of their external reporting by extending its assured information to include community investment and social information at Group level while at the same time improving their cooperation with multi-stakeholder initiatives giving rise to long-term goal alignment with the United Nations Global Compact and the voluntary principles of security and human rights (www. tulloil. com, 2008, p. 9).

Where EHS activities such as CO₂ emissions are easily monitored, CSR activities are difficult to verify, Tullow oil report on their CSR activities through their annual CSR report, it also complies with GRI and had a C+ grade and is looking forward to achieve a higher grade in the future (www. tulloil. com). In most cases, verification and assessment of CSR activities and its real impact of their work is difficult, the effect of Tullow's work is seen by all - renovating high school, laboratory, school building and improving health of local communities etc.

Peer group comparison- Chevron

Chevron is one of the largest oil and gas firms in the world and headquartered in California. The company was formed in 1879 in Los Angeles when the earliest discovery of oil was made. It was named Pacific coastal oil,

<https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

it later became Standard oil and now Chevron. The company employs 60,000 employees globally.

Just like Tullow oil, Chevron's CSR is built on their value which serves as a guide on their actions. Chevron conducts their operations in a socially responsible and ethical manner, respect the laws and support human rights, protect the environment and benefit the local communities where they operate.(www.chevron.com p. 3). Some of the CSR activities are:

Global Fund: Chevron has established a Global Fund to combat diseases such as malaria Aids and Tuberculosis -a public-private partnership formed by the United Nations to wipe off these diseases. Chevron had made available\$30 million dollars to funds programs in countries where these diseases are a problem and have more than 700 health care staff support in those countries for implementation.(www.chevron.com).

Education: In partnership with Discovery Channel Global Education Chevron assist 55 Learning Centers in Angola, Venezuela, South Africa and Nigeria and in Indonesia a polytechnic institute was opened in tsunami-ravaged Banda Aceh through chevron's partnership with government, nongovernmental organizations and the United States Agency for International Development to enable high school graduates to acquire skills to enable them compete in the global economy. In Philippines Chevron is also engaged in supporting drop-out youths to acquire skills to enable them become employable and have achieved a great success.

Local enterprise development: In its desire to improve the livelihood of the communities in which they operate, chevron has partnered with an <https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

investment firm to operate a NovoBanco, a micro credit business to in Angola to help enhance the local economy by providing finance to small entrepreneurs and low income households who find it difficult to access credit from

the main stream commercial banks. This project has been a big success and has three branches, 31207 customers and a net asset of \$27million US dollars.

Climate change: Chevron has a plan which is aimed at reducing emissions, improving efficiency and good policies to protect the environment. their annual green house emissions goals were set based on this plan, as a result they achieved their goals and were ranked first among US based oil and gas firms and second globally in the 2008 carbon disclosure leadership index. (chevron csr report, p. 3).

It is believed that the discharged of CSR with the motive of making profit is not real CSR. CSR only becomes real where there is no profit motive making involved. In this regard, the writer thinks that if the Chevron's microfinance project in Angola has the motive of making profit then it could not be seen as real CSR.

Tullow oil strongly believes that their engagements in CSR activities are an indication of true CSR value where the communities in which they operate to share their success and contribute to the sustainability of the villages.

According to the chief executive of Tullow, the firm's CSR activities is not about public relation ((PR) but it's about being a good corporate citizen, as a result of this, Tullow's CSR projects in Ghana, Paskistan, Uganda and those in <https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

all countries of their operations are good examples of doing CSR the right way, these projects have really transformed communities.(Moran, 2007)

Arguments for and against CSR

The case against the concept of CSR begins with the classical economic argument pushed forward by the Milton Friedman (1962). Friedman held that management has one responsibility and that is to make the profits for the owners. He argued that social issues are not what a business is established to engage in and that these issues should be solved by the unrestrained activities of the free market system. Further, this view holds that, if the free market cannot solve the social problems, it falls not upon business, but upon government and legislation to do the job. A second objection to CSR has been that business is not capable to handle social activities. This position asserts that managers are oriented towards finance and operations and do not have the necessary expertise to make socially oriented decisions (Davis 1973). A third objection to CSR is that it dilutes businesses' primary purpose and so to adopt CSR would put business into fields of endeavour that are unrelated to their 'proper aim' (Hayek 1969). A fourth argument against CSR is that business already has enough power, and so why should we place in its hands the opportunity to exercise additional power, such as social power (Davis 1973)? A fifth argument is that, by pursuing CSR, business will make itself less competitive globally. It should be noted that the arguments presented here were introduced decades ago, though some people still hold them, and that the oppositions to the concept of CSR applied when the idea was once more narrowly conceived.

However those in favour of CSR do not agree with the position against CRS, they are of the conviction that if business is to have a healthy climate in which to operate in the future it must take actions now, this will ensure its long-term viability. This is particularly true in the case of Tullow, Tullow believes that CSR is all about communities in which it conducts its operations, and as such is concerned with improving education, health and safety etc of the local communities because it from these communities that they hire their workers, it also improves the company's reputation in the community which leads to wider acceptance by all thereby providing Tullow with social licence to operate (Moran, 2007p. 15). A second argument in favour of CSR is that it will 'ward off government regulation'. This is a very practical reason, and it is based on the premise that future government intervention can be forestalled to the extent that business polices itself with self-disciplined standards fulfils society's expectations of it. Two arguments in favour of CSR include 'business has the resources' and 'let business try'. These views maintain that, because business has a good number of managerial ability, functional knowledge and resources, and because others have tried and could not solve social problems, business should be given the chance (Davis 1973, p. 316). Another justification for CSR holds that proacting is better than reacting. This basically means that proacting (anticipating, planning and beginning) is more pragmatic and cost effective than simply responding to social problems once they have occurred (Carroll and Buchholtz 2009). Finally, it has been argued that business should engage in CSR because the public strongly supports it. Today, the public believes that, in addition to its pursuits of profits, business should be responsible to their workers, communities and other stakeholders, even if

<https://assignbuster.com/corporate-social-responsibility-in-the-oil-industry-management-essay/>

making things better for them requires companies to sacrifice some profits (Bernstein 2000). Many of these arguments for and against CSR have been around for decades. They certainly present the legitimate perspective that there are, indeed, two sides of the argument with respect to almost any concept.

Business case for CSR

A growing number of scholars criticize the case that is brought forward by its proponent regarding business case, however, this business case is commonly grounded in arguments regarding the improvement of a company's competitive advantage, corporate reputation, resource efficiency, its beneficial impact on staff morale and CSR being seen as a function for competent management. Another important issue is the adoption of CSR as a risk management tool (Utting 2005: 380).

In his critique of the strategic use of CSR in the oil industry, Frynas (2005) believe that CSR is generally used instrumentally in order to, gain a competitive advantage or maintain a stable working environment. As a result, CSR is focused on add on measures and technical solutions, to a certain extent neglecting the contextual environment or even the intended beneficiaries that are addressed by the CSR measures. The strategic use of CSR and its link to corporate reputation show a number of critical issues. From this perspective, companies should only engage in CSR if this is less costly than the reputation damage that might be inflicted by, for example, a consumer boycott. to a certain extent, businesses use CSR as a mere public relations tool to improve the company image, while preventing alternative

(regulatory) approaches and detracting from their own corporate social performance (Greer & Bruno1996, Welford 1997, Christian Aid 2004).

Blowfield and Frynas contend that, the business case for CSR brings to light some important questions that travel beyond the failure and success of some CSR initiatives, for instance, why is it that important economic issues are omitted from the subject of CSR standards, since the impact of oil and gas investments is more damaging economically to the producing oil nations than the environmental impact, therefore if oil firms are being made to be responsible for oil spillages , they can as well be made to be responsible for their actions towards the deterioration of non-oil producing sectors of the economy, however the recent CSR approaches do not contemplate bestowing such a duty on oil and gas firms.

In measuring the impact of Tullow oil's CSR activities on the firm's performance in terms of finance will not be easy, and as such there is no qualms that CSR has very much added to the success of the business, frankly, Tullow shows the differences between charity offerings which promotes good Public relations and good CSR strategy which is embedded in their business. Tullow shares the view that good CSR is about do something meaningful for the villages where they engage their operations, they would want to see those villagers healthy, educated; have improved economic lives etc, because most of their workers come from these communities.

Tullow's CSR activities in the countries where they operate have yielded fruits, by enhancing the firm's image; it has offered good business opportunities to the firm. In most of the communities in the countries where

they operate, the local communities and the local government have come to know Tullow oil and have accepted them and this has actually given them a competitive advantage over their competitors. To those communities, those projects have caused a new dawn to fall on them- improved health facilities, education, development of local enterprise etc.

The way forward- Tullow oil

Globally, the petroleum industry is gradually undergoing changes and this will have effect on finances as such some financial and operational adjustment is needed, prices of oil are out of control of companies in the industry and so petroleum firms should adjust swiftly