Corporate Social Responsibility and Environmental Management
Corp. Soc. Responsib. Environ. Mgmt. **12**, 1–9 (2005)
Published online in Wiley InterScience (www.interscience.wiley.com). **DOI**: 10.1002/csr.071

The Role of Corporate Social Responsibility in an Oil Company's Expansion into New Territories

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ABSTRACT
The nature of the oil industry demands that it be proactive and socially responsible in addition to operating in an ethical and environmentally friendly manner. The aims of this study were to analyse the role of corporate social responsibility (CSR) in BP's overall business strategy and its practices in relation to oil developments in the Faroe Islands as well as examining the benefits of employing CSR as an integral part of business strategy when operating in new territories and cultures.

The findings suggest that BP's awareness of the relationship between socially responsible investment and reputation, linked to their desire to have a positive impact on the societies in which they operate, mean that CSR is an important component of their business strategy.

However, while BP perceive CSR as having a positive effect on their expansion into new territories and the host country may require licence bids to include social and environmental factors, these are secondary to operational performance and technical capacity in determining licence awards. Copyright © 2005 John Wiley & Sons, Ltd and ERP Environment.

Received 23 July 2003; revised 18 June 2004; accepted 18 August 2004
Keywords: corporate social responsibility; oil exploration licences; BP; Faroe Islands

Introduction

IN THE LIGHT OF GLOBALIZATION AND THE INTERNATIONALIZATION OF MANY COMPANIES IN ALL SECTORS, competitive edge has taken a new direction with a greater emphasis on the socially responsible behaviour of companies, and the sponsorship of the communities that they expand into. How companies *are perceived* to behave is possibly as important as how they behave, and the faith of stakeholders in company conduct is essential.

Corporate social responsibility (CSR) is becoming an integral part of international business across many industries. Research (CSR Europe, 2001; Cowe, 2001; Mazur, 2001) shows that there has been

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an increase in CSR activity across Europe, particularly as more and more businesses are becoming aware of CSR as a business strategy (Kilcullen and Kooistra, 1999). However, while many areas of research have examined the nature of cultural or business preference to social equality, organizational culture and ethics (Adler, 1997; Singhapakdi *et al.*, 2001; George and Jones, 2002; Lantos, 2002), there has previously been no research regarding the role of CSR in the expansion of organizations into new territories or cultures. This article aims to analyse critically the perceived importance of corporate social responsibility to BP in its expansion into the Faroe Islands following oil developments in this predominantly fishing-based society.

Aims and Objectives

The main objectives are

(i) to analyse the role of CSR in BP's overall business strategy and its practices in relation to oil developments in the Faroe Islands and
(ii) to examine the benefits of employing CSR as an integral part of business strategy when operating in new and current territories and/or cultures.

Methodology

The BP Faroe Islands case study provides a recent example of expansion in which to examine the perceptions of both the country and a company involved. First, the influence of CSR was determined by examining perceptions of the value of socially responsible behaviour in securing the support of the local communities the company expands into, and the real benefits, such as competitive advantage, that BP believes can be gained from pro-social and humanitarian behaviour. Interviews were conducted in order to compare the perception of CSR importance held by the Faroese Ministry of Oil with the perceptions held by BP. Second, the study looked at the practical application of CSR, particularly the issue of centrality to the main business strategy of an organization when entering new territories.

Representatives from BP were interviewed and recent company reports and website information were examined. A CSR, social auditing and accounting specialist and a representative of the Faroese Ministry of Oil were also interviewed. Following an investigation of the relevant literature, themes were identified in the analysis of both the semi-structured interview transcripts and the documentary information. The research required examining the guidelines that exist concerning efficient, ethical and environmentally friendly operations in new and existing territories and identifying whether these guidelines are company specific, governmental or from an associated body. It also involved the examination of CSR activities and the benefits of making it an integral part of business strategy.

Findings

Perceptions of CSR

Though there is still no 'universally agreed' definition of CSR, it is generally held that it involves going beyond the basic business responsibility to 'maximize profits' to meeting the needs of other interest groups in addition to those of shareholders. Most definitions are similar to that of the World Business Council for Sustainable Development, which describes it as 'contributing to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' (CBI, 2002). Despite the ambiguity inherent in the term 'socially responsible conduct' for businesses, it is clear that governments across the Western developed world and regulatory bodies for global business do not wish to consider implementing a universal set of CSR guidelines, as it is agreed that no single strategy will suit all businesses.

Many academics, business specialists and government bodies, such as the European Union, believe that conducting business by operating in an ethically and a socially responsible way, in addition to regularly reporting these activities, does create long term benefit in the form of increased profits for companies (CBI, 2002). While there is some contradictory evidence for this (Balabanis *et al.*, 1998), governments across the Western developed world and multinational organizations alike are increasingly promoting the 'necessity' of companies to be socially responsible as well as profitable (Business Impact, 2001). There is a degree of fear amongst many companies, however, that voluntarily 'helping to alleviate society's ills' may attract restrictive legislation, resulting in a climate where larger companies will fare much better than their smaller, poorer competitors (Kitchen, 1997).

For example, in the July 2001 European Union (EU) Green Paper for socially responsible investment, emphasis is placed on stakeholder relationships and the perceived link between corporate social responsibility and competitive advantage (EC, 2001).

Though there is so far little legislation relating to ethical business, government CSR initiatives appear to be plentiful, especially in America and across Europe (CBI, 2002), where increased importance is being placed on social responsibility by consumers and companies alike (CSR Europe, 2001). Organizations such as CSR Europe, the SiRi Group, and MHC International provide in-depth information on CSR evaluation and social performance indicators. Such organizations believe that there is a 'clear connection between the health and profitability of a company and the general well-being of the community in which it does business' (Bitc UK, 2001). Additionally, many companies, such as the Co-operative Bank and BP, already have their own guidelines or codes of conduct, which include statements of operational conduct in foreign countries, conducting ethical and environmentally friendly business dealings abroad and details of charitable giving guidelines (Co-operative Bank, 2000).

Social Responsibility and the Oil Industry

The authors note that companies operating within industries that are environmentally or socially damaging by their very nature are subject to questions of legitimacy regarding their promotion of CSR through deliberate business initiatives (Campbell *et al.*, 2003; Wheeler *et al.* 2002). While this is certainly true with the oil industry, in this case it was decided that an investigation into the role of CSR in oil industry expansion would nevertheless be of interest to both CSR and business practitioners alike.

The UK Offshore Operators Association (UKOOA) is the organization responsible for advising UK oil companies on social conduct locally and across the globe. Its main objective is to 'enhance the oil and gas industry's competitiveness in the global environment through its ability to attract continuing investment and thereby deliver long-term benefit to the UK economy' (UKOOA, 2001). Specifically, their social strategy is to facilitate business conduct with 'full recognition' of the effect the oil industry has on society and their responsibility to it. The main elements of this are continual improvement, engaging with local stakeholders, and helping local authorities and communities during phases of UK continental shelf development (UKOOA, 2001). In addition to this BP has its own initiatives in place regarding sustainable development, community development, sponsorship and community involvement (Ernst and Young, 2000).

BP's Expansion into the Faroe Islands

Oil in the Faroe Islands – an Overview

The Faroes are a small group of islands with a population of around 47 000. Still owned by Denmark, independence is the main political issue at present (Faroe Islands Fact Pages, 2001). Since the economic problems of the early 1990s arising from a drop in fish prices, there is concern over the reliance of the economy on the fishing industry. Currently, it is estimated that fishing comprises over 90% of the Faroese income (Faroese Government Homepage, 2001), though this may change with the arrival of the oil industry in the country.

The first Faroese Hydrocarbon Planning Commission was appointed in 1992 when the government initiated investigations into the possibility of drilling for oil on the Faroese shelf. Following this, the Act on Preliminary Surveys was passed in 1993 and the first Petroleum Administration was established. In 1997 the Preparation for Oil Exploration report was drafted; this examined issues that might arise with the future hydrocarbon industry such as 'the influence on the Faroese economy, socio-economic consequences, influence on the environment and the fishing industry' (Ministry of Petroleum Homepage, 2001, p. 2). The Ministry of Petroleum, founded in 1999, co-ordinates all oil activities in the Faroe Islands and organizes further research into the effects of a hydrocarbon industry for the future, demonstrating the importance of these issues to the Faroese authorities.

The Faroes Geotechnical, Environmental and Metocean (GEM) network includes the Ministry of Petroleum and all participating oil companies, such as BP, and enables drilling in a safe and environmentally 'acceptable' manner (Faroes GEM Homepage, 2001).

The Faroese Government's Social Requirements of Oil Companies

Clauses 11–13 of the Model Licence Exploration and Production of Hydrocarbons, Faroe Islands (2001) state that licensees (oil companies operating in the Faroe Islands) must provide employment opportunities for local citizens and local companies through contracts and sub-contracts. Furthermore, they should give Faroese research and educational institutions the opportunity to take part in research undertaken. Licences contain Faroes Participation social requirements as well as drilling commitments.

An interview with the Public Affairs Advisor at the Ministry of Petroleum revealed that apart from Faroese involvement the ministry did not have specific social guidelines for the oil companies. The interviewee reported that '[the companies] were awarded licences on their ability to explore in Faroese waters and their commitment to undertaking geological work'. Any previous record on CSR activities such as sponsorship would be 'considered an internal company policy (that) has nothing to do with the oil company's work they have committed to under licences'. The interviewee said that it was for the oil company to propose specific Faroese participation activities to complete as part of their licence agreement and these would be reviewed but such considerations would be secondary to the oil company's operational performance.

Research Undertaken by BP Prior to Operations on the Faroese Shelf

BP's view is that 'as we [the oil industry] enter new markets and expand existing ones, we have an obligation to consider the impact we have on the communities where we're operating and to create a positive and sustainable contribution towards progress there'.

'A key principle of BP is that we start from the same basic point of view wherever we operate. The world over our approach is founded on the same principles, which are outlined in our policy statements . . . The [BP] guidelines would also be a starting point for looking into new countries and cultures.'

Most companies examine potential areas of operation via 'PESTLE (political, economic, social, technological, legal and environmental) analysis' and 'a country risk assessment process', and here BP is no exception. Following an examination of the government's guidelines, the company then concentrates on the 'social necessities' of the country. Before entering the Faroe Islands BP conducted a risk assessment and examined regulation. The interviewee stated that 'there was a problem with environmental issues because whaling is still a big part of the Faroese culture', which caused concern about reputation. Other research was undertaken regarding issues such as 'if oil isn't found how will the Faroe Islands benefit [from BP's presence]?'. The organization also examined the issue of independence from Denmark. Results demonstrated that in the instance of independence 'diversification of the (Faroese) economy' would be beneficial. Following this, BP made a bid to 'invest in the fibre-optics industry', which it believes could be a growing industry in the Faroe Islands.

However, the company believed that there was a 'lack of information' about the socio-cultural aspects of the Faroes, and the BP-Faroe Islands Co-ordinator, Martin Miles, instigated further research into 'other potential areas of investment'.

Perceived Significance of CSR to Entering New Cultures/Territories

In terms of its effect on entering new cultures or territories, BP perceive CSR positively for business in general and for the oil industry in particular. Specifically on the oil industry, BP stated that 'Entering new territories requires SLEPT (social, legal, environmental, political and technological) analysis and a country risk assessment process, which does involve lots of research . . . then we must look at access guidelines by the country's government, and after that, look at the [country's] social necessities'. Cultural research was also regarded as 'very necessary before entering the Faroe Islands . . . [in order to] get a good reputation before [it] even started drilling'. BP reported having substantial contact with Faroese representatives before maintaining a physical presence there. Furthermore, such 'pre-work' was deemed 'invaluable'.

With regard to the future role of CSR within the oil industry, BP stated that 'at present [the oil industry as a whole] may believe that CSR is not of high importance'. However it also contended that 'CSR will be around all the time . . . [The oil industry] needs to keep an eye on CSR trends such as globalization and oil companies having undue influence on societies. Every company will have CSR as part of its business because building relationships is so much easier if you understand people'.

Analysis and Discussion

Stakeholders, Accountability, Reputation and CSR–Profit Links

The literature highlighted two main groups of stakeholders involved in the oil industry. The first group comprises those who expect it to be socially responsible due to its otherwise 'negative' effect on the environment and societies. These are mainly NGOs whose primary purpose is 'the promotion of social and/or environmental goals rather than the achievement of economic power in the marketplace' (Lantos, 2002). The second group is made up of the host countries and direct consumers, who pay less attention to the social reputation of companies and more to their operational performance.

BP suggested that it conducts social audits as a form of stakeholder consultation on its social and environmental activities. There seemed to be no reflection of the objectivity concerns found in the secondary research. However, the research results reflected the oil company's awareness of stakeholder concerns through their activities such as local community involvement and issues such as Third World poverty as well as investment in the environment. In fact, social investment appears to have been part of BP's strategy for some time. Furthermore, evidence suggests that BP believes that making CSR part of the central business strategy may be significantly more beneficial to the company in the long term. Arguably, companies could benefit more from CSR by adopting BP's approach, where CSR seems to underlie organizational culture.

CSR influences on areas such as accountability, reputation and profit may be difficult to determine. According to the literature, taking notice of stakeholder issues is generally perceived by companies to have a positive effect on reputation by demonstrating the willingness of companies to be accountable for their actions in society. Presumably, organizations are aware that this may be of benefit to the company in the long term in terms of both profit and stakeholder relationships. Whilst the literature suggested that many companies perceive stakeholder satisfaction, accountability, reputation and profit to be linked, the case study results indicated emphasis on some areas rather than others. Overall, BP seems to be aware of stakeholder concerns that are increasingly based on social issues. Regarding the perceived importance of CSR it seems fair to say that this company is aware of the benefit of CSR reporting to reputation and profit.

The Need for CSR Guidelines Versus the Need to Avoid a Restrictive Universal Code

It would be logical to assume that most industries would not welcome additional legislation regarding any aspect of their conduct, locally or globally. Nevertheless, the degree of uncertainty regarding the 'rules' of CSR could mean that a socially and environmentally intense industry would welcome a set of CSR-specific guidelines from UKOOA or other regulatory body. However, the nature of the oil industry is that it follows oil to new territories where codes of conduct are not necessarily easy to abide by. Though this possibility of ignoring codes of conduct is disconcerting – and hopefully very rare – a 'universal' code (across the oil industry) has the potential to be restrictive to any companies operating in politically unstable territories for example. However, BP takes an active role in social investment across the globe, which may be partly due to the fact that oil companies have been under pressure for some time to be more socially and environmentally responsible (Edwards, 1997; Ledgerwood, 1997; Gray and Bebbington, 2001; Livesey, 2001).

Apart from the social and environmental concerns of the stakeholders there is also the aspect of competitive advantage or using 'goodwill' as a selling point. Findings show that BP utilized this aspect as a means of increasing competitive advantage. The implication that BP is able to recognize meeting stakeholder expectations of 'socially responsible' conduct as conducive to making profit is significant. Ethical considerations aside, the findings illustrate an ability to meet stakeholder social responsibility requirements while marketing them as an 'added extra'. The implication for legislation is that it could, with financial outlay and proper planning, be transformed from a burden into an advantage by organizations. BP believes that the negative impact of legislation on its business would be kept to a minimum due to its pro-active, integrated approach to environmental, ethical and social issues. BP's decision to place CSR at the centre of business strategy is arguably why the organization is in a position to view with equanimity the possibility of increased legislation. However, the prospect of a strict regulatory code may be more daunting to companies who adopt CSR as more of an 'add on' to strategy than an integral part of business practice.

BP is registered on the FTSE4Good index and has little doubt that such 'publicity' has a positive impact on stakeholders. Such initiatives are believed by many companies to prove a certain level of competence in ethical conduct as they are awarded or decided by a completely separate organization. On this basis it could be argued that such initiatives constitute a more constructive approach overall in relation to raising levels of ethical business performance than legislation could achieve.

Finding a Link Between CSR as a Business Strategy and CSR–Business Benefits

It is evident from the literature that many companies realize the link between being socially active, reporting the results and therefore meeting increasing stakeholder expectations, and creating profit (Business Ethics Homepage, 2001; De George, 1995; Hardjono and Marrewijk, 2001). One issue that arose from the research was the notion of CSR–business strategy fit. It was concluded that placing CSR as an integral part of business strategy would be highly beneficial in terms of defining CSR evaluation and measurement, and determining its impact on profit.

However, while BP appears to be making good progress with CSR initiatives of its own, one question is whether the centrality of the strategy makes any difference to the creation of value in relation to stakeholder perceptions. Undoubtedly, reporting that is conducted by an organization may be equally as effective on stakeholder confidence if CSR is not an integral part of its business strategy. Conversely, BP with CSR at the centre of its business strategy feels reasonably secure about the possibility of future CSR-related legislation, suggesting that such an approach to CSR may result in higher financial flexibility in terms of increased social investment.

The Significance of CSR to Entering New Territories/Cultures

BP believes that CSR has a positive effect on companies entering new territories in that research was considered extremely important prior to integration into a new geological area. The findings imply that this has more to do with the company's desire to have a positive impact on the countries in which they operate and less to do with using a reputation for being socially responsible as a 'selling point' for the company. CSR is embedded in BP's business strategy because they perceive being socially responsible as 'the right thing to do'. An oil company's mandate differs from that of a government and, whatever NGOs may say, it would be inappropriate for an oil company to take on social responsibilities that are the prerogative of a host country's government. However, BP's policy would include trying to enhance, where possible, that government's existing social funding programmes.

In the case of the Faroe Islands, despite the heavy reliance on the environment by the Faroese fishing industry, the findings highlighted the country's emphasis on the company's operational performance rather than their environmental reputation. While oil companies had to propose specific Faroese participation activities to complete as part of their licence commitment, their technical competence would take precedence over these in the host country's decisions on awarding licences; oil companies themselves would agree with this priority.

Overall, while the role of CSR in the case of BP entering the Faroe Islands was important to the host country, it was viewed as secondary to the ability of the company to perform well on the operational level.

Conclusion

The study demonstrated that the most successful CSR strategy is the one that is integral to the overall business strategy of the company. To this end, the oil industry is no different from any other. However, the findings of the investigation imply that the oil industry is set apart from others in terms of expectations placed on it by two main groups of stakeholders, which impose on it in direct and indirect ways but with equal impact. In this way the oil industry is in an unusual position where indirect stakeholders such as pressure groups who do not do business with the company at all may be dictating a need for socially responsible policy. Conversely, such policy could mean less to prospective host cultures or 'employers', who are more likely to equate the employability of a company with a high operational performance.

In this case BP's proposals to invest in the fibre-optics industry in an attempt to diversify the Faroese economy were welcome, though beyond providing employment for local citizens and research institutions the Faroese government had little interest in the other sponsorship activities of oil companies. In fact, the evidence implied that having a record for corporate social responsibility did not make BP or any other company more 'employable' to the Faroe Islands than they would have been otherwise. So, despite the fact that the literature research has identified CSR as having positive influences on reputation, profits and entering new cultures, these did not make much difference in this case.

Overall, evidence has demonstrated that there are benefits of employing CSR as an integral part of business strategy, namely the creation of value through positive stakeholder relations and reputation. However, there is much less data to support the contention that a good reputation for CSR would make much difference to entering new cultures or territories.

While the BP-Faroe Islands case study was intended as a preliminary examination of the role of CSR in the expansion of a company into a new territory and culture, more research needs to be undertaken into the area as a whole. Future research might include quantitative research into CSR perceptions across the oil industry, and into the role of CSR in the expansion of multinationals into new territories.

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