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THE EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY IN OIL AND GAS INDUSTRY IN AZERBAIJAN: DOCUMENT ANALYSIS OF SOCAR

Case
Study

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Q01, Q56

Abstract

Azerbaijan became familiar with corporate social responsibility (CSR) as a new phenomenon at the beginning of the new era and it has already changed its meaning rather than charity. The aim of this study is to analyze the transformation and the current situation of CSR in Azerbaijan, particularly in the petroleum industry. In the last three decades, the oil and gas industry is the key driver for the economy in Azerbaijan. Especially, several foreign companies invested in oil exploration and production after the country got independence. The paper presents the CSR activities of State Oil Company of Azerbaijan (SOCAR) that takes the main part of the oil and gas industry at local and global levels. The document analysis of SOCAR is based on Carroll's CSR pyramid. Moreover, available literature on corporate social responsibility is undertaken for the theoretical underpinnings on the topic.

INTRODUCTION

After the collapse of the Soviet Union, Azerbaijan was also one of the fifteen countries that got independence in 1991. In the early years of independence, Azerbaijan faced economic, political, social and environmental challenges in the transition period from a centrally planned economy towards a market-oriented economy (Suleymanov & Osman, 2016). The petroleum industry also collapsed after independence, therefore attracting foreign investors for this purpose was considered to be reasonable. In 1994, SOCAR (Azerbaijan) and 12 oil companies from eight different countries, including Statoil (now Equinor from Norway), Amoco (U.S.A), Lukoil (Russia), UNOCOL (U.S.A), Ramco (Scotland), BP (UK), TPAO (Turkey) signed a production sharing agreement, which is also known as the "Contract of the Century" (The Ministry of Energy of Azerbaijan Republic, 2020a). After this great occasion for the country, Azerbaijanis met with CSR as a new phenomenon when these oil companies initiated programs and projects with society, environment and employees. From the beginning of the 2000s, SOCAR also accepted CSR policy and continued its initiatives for sustainable development (SOCAR, 2011).

After 2006 more than 80% of the total export of Azerbaijan has been consisting of oil and oil production. As can be seen, this industry plays a pivotal role in the export profile of the country and it has already become essential and vital for the economy (The State Statistics Committee of Azerbaijan Republic, n.d.).

LITERATURE REVIEW

There is not any certain or universal definition of corporate social responsibility. In general, CSR is dealing with business in an ethical way in order to get sustainable development in three spheres: economic, social and environmental, that has become essential in today's business world (Henningfeld, Pohl and Tolhurst, 2006). Therefore, the adoption of corporate social responsibility by companies is seen as a way to "integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society" (Hohnen, 2007, p.4).

CSR activities mostly pertain to human rights as well as labor and social legislation, corporate governance and ethics, environmental and climate protection, consumer protection and the sustainable management of natural resources classified by Archie B. Carroll in 1991. Nowadays, Carroll's

CSR Pyramid is being used widely to understand and analyze CSR activities of the companies systematically. The pyramid consists of four responsibilities: economical, legal, ethical and philanthropic.

The first layer is economic responsibility, which means business's first goal is to be profitable and earn money through supplying the consumers with goods and services. At first, it can not be seen as social responsibility; however, this is the main thing that society requires business organizations to be able to sustain themselves. Maximizing the revenue, minimizing cost and making proper strategic decisions are the basics of the economic responsibility (Carroll & Bucholtz, 2015). The next one is legal responsibilities which are also required by the society. In these responsibilities, companies are expected to obey the laws, including environmental laws, consumer laws, the laws which are affecting employees, because "the law is society's codification of acceptable and unacceptable behavior" (Carroll, Bucholtz, 2015, p.35). The third layer is ethical responsibilities, which are expected by society. For some specific situations, the law is not sufficient therefore, businesses are expected to continue their process in an ethical way. It emphasizes also being careful and evading or diminishing harm to stakeholders, such as avoid questionable practices or operate above the minimum standard of the law (Brusseau, 2013). At last, philanthropic responsibilities comprise charities, volunteerism, sponsorships for the society or supporting the communities. Society desires that businesses will contribute in terms of some activities in order to be good corporate citizen (Carroll, 1991).

METHODOLOGY

The research comprises the historical overview of CSR in Azerbaijan and its transformation over time. The available literature on corporate social responsibility is undertaken for the theoretical underpinnings on the subject and the theoretical framework is principally based on Carroll's pyramid. The other aim is to analyse how CSR is defined by SOCAR. To perform the research, a qualitative method was used, specifically document analysis method. The secondary data about CSR activities and initiatives are culled out from the annual sustainability reports of the company.

HISTORICAL TIMELINE OF CSR

The historical roots of CSR date back to the first oil period that started with the mechanical production of oil in the territory of Baku in 1847. The period of 1847-1848 was characterized by the first

production of industrial oil from the dug wells in the world (The Ministry of Energy of Azerbaijan Republic, 2020b). The development of the oil industry of Azerbaijan started from those years and the first oil boom happened at the end of the 19th century in Baku. Consequently, a great number of people made a fortune in this field. Several entrepreneurs and oil magnates, such as Haji Zeynalabdin Tagiyev, Murtuza Mukhtarov, and Aghamusa Nagiyev engaged in philanthropic activities by taking Islamic principles into consideration (Center for Economic and Social Development, 2013). Their main purpose is to help poor people for the development of the living standard. Therefore, the early stage of corporate social responsibility in Azerbaijan was primarily in the framework of philanthropic activities, including charities, sponsorships for education and public welfare. While these actions did not follow the modern definition of corporate social responsibility, however, these first steps can be considered as CSR.

During the Soviet period that started in 1922, all oil fields and industries were controlled by the government. Throughout that period, there was not any record regarding CSR.

After 1991, Azerbaijan got independence again and transition to market economy gave a chance for private ownership. As it is mentioned, first oil companies and then other larger businesses, such as banking and food industries, initiated CSR programs and projects (Publications, U. I. B., 2009). One of the big steps into this concept is the creation of the CSR Committee by the American Chamber of Commerce in Azerbaijan. Amcham Azerbaijan organizes events regularly, in order to encourage companies to embrace social responsibility and stimulate relevant stakeholders through activities (The American Chamber of Commerce Azerbaijan, 2017).

Center for Economic and Social Development conducted a study about the assessment of the corporate social responsibility activities in Azerbaijan in 2013. As a result, the level of social activity of companies in Azerbaijan is quite low compared to the rest of the world. Collectivism, barriers and restrictions that imposed by the Soviet Union on private businesses have led to the underdevelopment of CSR (Center for Economic and Social Development, 2013). Moreover, the situation of CSR in Azerbaijan is quite different from European countries. CSR is still considered as philanthropic activity by most of the companies with few exceptions of banks, food, and oil companies. This perception creates misunderstanding and limits corporate responsibility principles to occasional charity activities by local organizations, government bodies, and a very few representatives of private sector.

SOCAR'S CSR INITIATIVES

State Oil Company of Azerbaijan (SOCAR) was established in 1992 and currently engages in various fields of the oil, gas and petrochemical industries at both domestic and global levels. Since 2011, the company became the first Azerbaijani company to publish an annual sustainability report that shares its CSR actions and results (SOCAR, 2011). Sustainability report represents one of the key indicators of environmental engagement and it demonstrates not only environmental issues but also the detailed information about all CSR activities of a company. The major focuses of SOCAR are:

Social activities and support for regional development.

As philanthropic responsibility, many projects had been held in culture and sport to make contribution to regional development over the years. Furthermore, the company has always taken a number of steps towards training young people. Therefore, Study Abroad Program was established in 2006 and till now 172 talented people have joined the program to study at leading universities abroad with scholarship (SOCAR, n.d.a). Secondly, Study Support Program was designed in 2004, specifically for the best 20 students in each course, who are studying at the State Oil Academy of Azerbaijan, to increase competitiveness and to encourage them to enhance scientific knowledge in the oil and gas fields. This program is still continuing and each successful student gets a stipend monthly (SOCAR, n.d.b).

Occupational Health and Safety.

Currently, SOCAR produces crude oil and natural gas from onshore and offshore fields and due to the extreme weather condition in the sea, sometimes it can be very dangerous for employees. Unfortunately, as a result of the heavy storm, one of the high-pressure pipelines was damaged and, consequently, strong fire broke out in the sea platform No.10 at Gunasli oilfield in 2015. During that accident, 11 of the employees were killed and 19 were disappeared (SOCAR, 2016). SOCAR took strict measures after that accident and Occupational Health and Safety (OHS) became the first priority of the SOCAR. Moreover, regulation and guidelines were developed that define safety rules in the workplace in order to train SOCAR employees and raise awareness among them.

Environmental activities.

Oil and gas operations, despite the economic role is essential, but sometimes can be environmentally critical, especially when there are catastrophes or oil spills. The oil and gas operations pose a threat to the environment at each stage of the process

construction, exploration, production, transportation and refining (Frynas, 2009). Therefore, environmental responsibility becomes a priority for companies to implement the concept of sustainable development. In light of the above, SOCAR accepted Environmental Policy in 2008, is the principal guiding document for the environmental performance. The document determines the priority topics including, protect the environment, ensure environmental safety, and eliminate environmental hazards during operations and it comprises several supplementary documents, such as Waste Management Plan, Associated Gas Management Plan, Potential Emergency Prevention Plan, Biodiversity Protection Strategy and Oil Spill Prevention and Response Plan (SOCAR, 2012).

As can be seen from Table 1, there is a rising trend in expense for environmental measures over years, with the exception of 2016. Drop in oil prices at the world market in 2015 and, consequently, the currency devaluation, resulted in low finance to this issue. Generally, it demonstrates the high awareness of SOCAR to environmental responsibility. Furthermore, SOCAR takes internationally recognized standards into account for environmental management systems. Obtaining ISO-14001 certification from the certification body and extending it to the next years can be counted as a good example in this way (SOCAR, 2011).

Corporate Governance.

Regarding the economic responsibility of SOCAR, it needs to be mentioned again that all shares of the company are state-owned. However, the company has own commercial interests and should pursue its operations to survive in the world market. By having good Corporate Governance, SOCAR aims to protect the interests of all stakeholders, ensure sustainable growth of the company, increase possible impacts of operations and remove negative impacts, reduce risks, protect and strengthen the company's reputation (SOCAR, 2015). Moreover, one of the main goals is to sustain and increase operational and administrative efficiency which can be considered a precursor to CSR.

CONCLUSIONS

One of the key contributions of this paper is the chronological timeline of CSR in Azerbaijan. It can be counted that the concept of CSR started from the beginning of the XX century, when oil boom happened in Azerbaijan. However, those philanthropic activities mainly originated from religion, culture and national values. The second period covers the Soviet Union's 70 years, during which Azerbaijan was controlled by a centrally planned economy. In this period there was not any entrepreneurship and consequently not any CSR.

The third period started from 1991, when Azerbaijan declared its independence. Azerbaijan changed its system to market-oriented economy, which attracted many international companies' attention, particularly oil and gas companies'. These international companies brought modern and new aspects of CSR and depicted it via several projects and programs.

CSR activities were getting widespread since 2000s in Azerbaijan. However, this positive improvement can mostly be seen only in particular industries. A lack of conceptual studies and information in the field lower both public perception and commitments towards it.

As the global economy calls for more attention to the role of sustainable development, the consideration of sustainability principles has substantially increased. SOCAR, the biggest company of Azerbaijan, closely monitors global trends and exerts every effort to implement them within the scope of its activities since early 2000s. According to the published annual sustainability reports, social, economic, as well as philanthropic responsibilities are implemented by SOCAR. In the light of the above, SOCAR pays more attention to CSR year by year.

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Table 1

Total environmental expenditure annually by SOCAR

Environmental expenditures, (million AZN)						
Year	2013	2014	2015	2016	2017	2018
SOCAR Azerbaijan	18,0	14,0	23,0	13,798	19,745	24,180

Source: Formulated by the author using Annual Sustainable Reports by SOCAR