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THE ENVIRONMENTAL ASPECT OF CORPORATE SOCIAL RESPONSIBILITY: DOCUMENT ANALYSIS OF SOCAR

Case
Study

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JEL Classification

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Abstract

Over the recent years, the interest in the concept of corporate environmental responsibility has been increased in Azerbaijan, like in many other countries in the world. A lot of companies in the country are directly or indirectly involved in one or more environmental responsibility activities. This paper intends to examine the leading Azerbaijani energy company, SOCAR's (The State Oil Company of Azerbaijan Republic) CSR practices focusing on the environmental dimension to determine to what extent it is fulfilling its responsibility toward the environment. To do the research, a qualitative method was also used, specifically document analysis method. The secondary data on environmental activities and initiatives are culled out from the annual sustainability reports of the company. Moreover, the available literature on corporate environmental responsibility is undertaken for the theoretical underpinnings on the subject.

INTRODUCTION

Nowadays oil plays a vast and vital role in a globalized world. Besides being an important energy source, petroleum products serve as feedstock for several consumer goods. Despite the economic role of oil and gas operation is essential, but sometimes it 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 of construction, exploration, production, transportation and refining (Frynas, 2009).

Over recent years there has been an increased interest in the concept of corporate environmental responsibility (CER) as a response to pressure from shareholders and NGOs to local community groups, media, influencing companies decision makers to pay more attention to environmental impact of their working operations (Holtbrügge and Dögl, 2012). Especially, the Brundtland Report, which was published in 1987, was the one of the main contributors to environmental responsibility awareness. Over the time, environmental responsibility became a priority for companies to carry out the concept of sustainable development.

In the light of the above, SOCAR as biggest national company of Azerbaijan since 1992, also aims to fulfill its environmental responsibility. The paper aims to answer the main question: to what extent is the SOCAR committed to the environmental dimension of their social responsibility?

LITERATURE REVIEW

What is CSR?

Although the concept has been developing since the early 1970s, there is not any certain or a universal definition of corporate social responsibility. In general, CSR is dealing with business in an ethical way in order to get sustainable development. These activities can be categorized in three spheres: economic, social and environmental (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).

Lastly, Dahlsrud (2006) analyzed all the available definitions and grouped CSR in five dimensions of CSR (Table 1).

Environmental aspects of CSR

Companies started to pay more attention and realized their environmental responsibility after World Commission on Environment and Development (WCED) published Brundtland report in 1987. The paper introduced the ways how to achieve sustainable development and eliminate environmental degradation. Corporate Environmental Responsibility (CER) came to common use and took place in literature after this year. CER is “a sub-category of the broader concept of CSR and it refers to voluntary and unforceable action beyond that is required by law (since there is a little responsibility or virtue in simply comply with legal obligations)” (Gunningham, 2009, p. 1).

The cost of Environmental CSR

In general, CSR is a voluntary activity which can not be forced. But sometimes, pressure from the government can compel companies to accept environmental responsibility and take necessary actions. Does Environmental CSR cause extra expenses for a company? Unfortunately, there is not any exact answer whether corporate environmental responsibility is beneficial to companies.

Many researches have been done that aimed show connections between environmental CSR activities and their economic performance. Environmental CSR activities can cause extra costs for companies which can be seen in a long-term period, not immediately. Some results show that business-environment trade-offs have positive impact on economical results in companies (Waddock and Graves, 1997). Moreover, Porter and Linde (1995) suggest that in a broader sense, CSR environmental activities can trigger innovation, reduce costs, save resources thus making competitive advantage and loyal consumers

On the other hand, according to the Baird (2012), there is a negative relation between CSR and financial performance. Moreover, Carroll and Bucholtz (2015) argued that business is not equipped for social activities. If managers continue to deal with corporate social responsibility as well, it would tend to dilute the business's main purpose. The problem is that CSR would put business into fields that are not related to their proper aim.

METHODOLOGY

The goal of this paper is to understand and analyze the current status of the environmental responsibility practices of SOCAR. The available literature on corporate environmental responsibility as a main dimension of corporate social responsibility is undertaken for the theoretical underpinnings on the subject. To conduct the

research, a qualitative method was also used, specifically document analysis method. The secondary data about environmental activities and initiatives are culled out from the annual sustainability reports of the company.

THE IMPORTANCE OF OIL FOR AZERBAIJAN

Azerbaijan is one of the oldest oil-producing countries in the world. After the country got independence in 1991 several foreign companies invested in oil exploration and production therefore, this industry enlarged substantially.

Over the years, Azerbaijan had become one of the main oil supplier countries in the world and oil exports play a pivotal role in export profile of Azerbaijan. According to the The State Statistics Committee of the Republic of Azerbaijan, oil and oil production comprised more than 75% of export share of Azerbaijan after 2003 and it reached the highest with 97.1% in 2008.

As can be seen from the Table 2, the oil and gas industry is the key driver for the economy and the main contributor for national budget of Azerbaijan.

In a conclusion, petroleum is the biggest industry in Azerbaijan. In that year oil well was drilled in the world for the first time in 1848. Since that year, air, water, soil as well as all living beings had been effecting negatively by oil production and transportation. Therefore, avoiding environmental pollution is one of the main priorities for the country.

In the light of above, The Ministry of Ecology and Natural Resources of Azerbaijan succeeded in promoting sectoral integration by developing environmental programmes and action plans, and by contributing to development of programmes on sustainable development since its establishment in 2001 (United Nations Economic Commission for Europe, 2011).

SOCAR`S ENVIRONMENTAL CSR ACTIVITIES

Environmental policy and expenditure

State Oil Company of Azerbaijan (SOCAR) was established in 1992 and now 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 is 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.

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, make sure 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 3, there is a rising trend in cost for environmental measures over years with the exception of 2016. Drop in oil prices at the world market in 2015 consequently, the currency devaluation resulted in low finance for environmental issues. Generally, it demonstrates the high awareness of SOCAR to environmental responsibility.

Mitigating Global Climate Change

Global climate change is one of the biggest environmental challenges that humanity is facing, and SOCAR fulfils its commitments in accordance with the UN Framework Convention on Climate Change and the Paris Agreement ratified by the Government of Azerbaijan on April 22, 2016. It stimulates the cooperation between market-based companies and government agencies that will reduce climate change impacts. It comprises also the search for innovative solutions in this area.

In order to mitigate climate change, SOCAR plans to cut energy consumption per unit product in the extraction, transportation and processing of oil and gas, to apply energy-efficient equipment and technologies, and other measures (SOCAR, 2016).

Environmental Impact Assessment

SOCAR approved five documents on the Environmental Conditions Assessment (ECA) and 12 documents on Environmental Impact Assessment (EIA) in 2018. These documents include all projects implemented by SOCAR and were drawn up in accordance with conventions signed by the Government of the Republic of Azerbaijan in terms of both domestic and international legislation.

Furthermore, SOCAR takes internationally recognized standards into account for environmental management systems. SOCAR obtained ISO 14001 certification that can be counted as good example on environmental management (SOCAR, 2011).

Stakeholder engagement

SOCAR accepts that raising the awareness of employees is one of the key elements for achieving sustainable development. In addition, it is part of SOCAR's approach to make sure that employees are continuously trained. Training is designed to

develop an environmental thinking that combines employee knowledge and occupational behaviour. SOCAR hosted a workshop on “Methane Emissions Inventory and Identifying Emission Mitigation Projects” with the participation of representatives of Norwegian Carbon Limits and experts of SOCAR’s facilities in 2018. “Ecology Month”, “Green School”, “Eco-Presentations” and other projects were implemented jointly with the SOCAR’s Ecology Department according to the Partnership Agreement signed by the Ecology Department and Baku City Education Department to raise interest in environmental sciences among schoolchildren and enhance environmental knowledge (SOCAR, 2018).

CONCLUSIONS

As the global economy calls for more attention to the role of sustainable development, the consideration of sustainability principles has been substantially increased. SOCAR, the biggest company of Azerbaijan, closely monitors global trends and it has been immensely committed towards the sustainable growth by balancing the economic development as well as environmental safeguard for its upcoming generations.

Petroleum industry is vital and the biggest industry of Azerbaijan. Over the years, oil makes up an important part of export profile of Azerbaijan. Therefore, environmental issues became necessary, as oil production is a threat for all living beings.

In the light of the above, SOCAR publish annual sustainability reports that are well designed and show clearly the environmental activities of SOCAR. According to the annual sustainability reports that were published starting from 2003, SOCAR is aware of their responsibilities towards the environment and they perform environmental activities within their CSR framework through international conventions and the partnership with the official institutions. Moreover, SOCAR also takes stakeholders into consideration and tries to increase their awareness.

Lastly, SOCAR’s expenditures on environment rise every year that shows high attention of the company.

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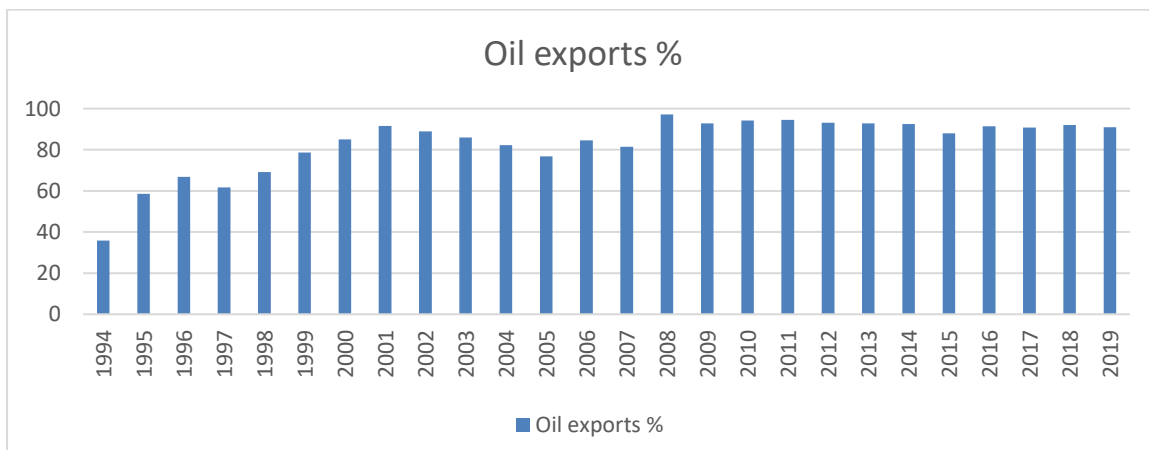
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Table 1
Dimensions of Corporate Social Responsibility

Dimensions	Example phrases
Environmental	environmental concerns in business operations contribute to a better society
Social	integrate social concerns in their business operations consider the full scope of their impact on communities
Economic	contribute to economic development preserving the profitability
Stakeholder	how organizations interact with their employees, suppliers, customers and communities
Voluntariness	based on ethical values voluntary

Source: adapted from A.Dahlsrud (2006)

Table 2
Oil exports of Azerbaijan annually



Source: The State Statistics Committee of the Republic of Azerbaijan

Table 3
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