

Namig MIRZAYEV
University of Debrecen

CORPORATE SOCIAL RESPONSIBILITY IN AZERBAIJAN: DOCUMENT ANALYSIS OF BRITISH PETROLEUM

Case
Study

Keywords

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Oil and Gas Industry;
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British Petroleum (BP);*

JEL Classification

Q01; Q56

Abstract

In recent years, interest in the concept of corporate environmental responsibility (CSR) has grown in Azerbaijan, as it has in numerous other nations throughout the globe. The purpose of this paper is to investigate CSR and its practices at British Petroleum (BP) in Azerbaijan. Therefore, in this paper BP's sustainability reports will be examined to determine the extent to which they meet the CSR. A qualitative method, specifically document analysis, was used to conduct the research. In addition, the available literature on corporate environmental responsibility is examined to determine the subject's theoretical foundations.

INTRODUCTION

In today's globalized society, oil plays a large and crucial role. Petroleum products, in addition to being an essential energy source, are used as feedstock for a variety of consumer goods. Despite the economic importance of oil and gas operations, they can be hazardous to the environment, especially when there are natural disasters or oil spills. Therefore, CSR has become an essential strategy for addressing the social and environmental consequences of business activities. However, businesses are increasingly expected to exceed this. They are now frequently expected to address many of the world's most important issues, such as climate change and poverty. Furthermore, public began to pay more attention to business operations than ever before. As a result, entities displayed CSR activities on their websites. The sustainability reports provided access to their audience and informed stakeholders about what firms were doing for society.

Following the dissolution of the Soviet Union, Azerbaijan was one of the fifteen nations to declare independence in 1991. After the country gained its independence, the petroleum industry also went into a recession, and the government decided to seek investment from overseas for this reason. Consequently, twelve oil corporations from eight nations signed a production sharing agreement in 1994. As a result, this industry resulted in a significant expansion.

In the light of the above, BP opened its first office in Azerbaijan in 1992 and already became the main oil and gas operator of Azerbaijan. As the largest foreign investor in Azerbaijan, the company has been actively involving in CSR since 2003 (BP, n.d.).

LITERATURE REVIEW

CSR definition

Although CSR has grown in popularity in the business sector, there is no commonly accepted or universal definition among experts (Frederick, 2006). Therefore, CSR is defined in many different ways in the literature.

According to Walton (1967), CSR is a concept that senior management must prioritize the relationship between the organization and society, and this relationship must be prioritized during the pursuit of goals by the firm and its linked stakeholders.

Carroll (1991) defined CSR as a four-dimensional pyramid including, economic, legal, ethical, and philanthropic (Figure 1). The bottom of the pyramid represents the business's economic obligation, which is to earn a profit by producing and selling goods and services. Following the

economic duties is the legal responsibility of the business to do business within the legal limitations. Ethical business duties are those that are not required or enforced by law but are recognized ethical by society. The company's discretionary activities are at the top of the pyramid, with philanthropic responsibilities at the top.

CSR is described by the EU Commission as a voluntary integration of social and environmental issues into corporate operations and relationships with stakeholders (EU Commission, 2001).

According to Lea (2002), CSR as going beyond legal compliance to manage the impact of company and non-business organizations in order to reduce their influence on society and the environment. It focuses on the interactions between the firm and its stakeholders, including as its employees, customers, and suppliers, as well as the community in which it operates, and on environmental protection.

Walter (2009) emphasized that CSR should be a key area of concern for sports organizations. Because of sport's unique place in society and the growing recognition of sport's capacity to address social concerns, he expects a close relationship between CSR and sport.

Smith (2011) defined CSR a corporate system that enables the creation and distribution of wealth for the benefit of its stakeholders by implementing and integrating ethical systems and sustainable management practices.

Modern CSR

Modern CSR emerged in the mid-twentieth century, particularly following World War II. Bowen (1953) expanded a company's social obligation beyond profit-seeking. CSR had become more talk than action by this point. People began to speak up against immoral corporate tactics after seeing that selfish firms were pursuing profit at the expense of entity morals (Carroll, 1999). Social responsibility gradually received attention in many American and European organizations.

Stakeholder roles evolved in the 1970s. They corresponded with an increase in public demand for corporate openness and accountability, and corporations recognized the importance of meeting public expectations. Governments also accepted CSR contributions to society, which improved environmental and social reporting (Carroll, 2008).

In the 1990s, the institutional role of CSR received a stronger foundation and more complementary topics. It arose as a worldwide issue advocated by international organizations and society. Those that support CSR have issued guidelines to strengthen the movement. For example, the Rio de Janeiro Earth Summit in 1991 created 27 principles to assist sustainable development (Katsoulakos, Koutsodimou, Matruga and Williams, 2004).

The 21st century witnessed the remarkable expansion of corporate social responsibility and its emergence as a strategic issue for businesses promoting sustainable development. Companies began to include CSR into their institutional strategies and management. Numerous European company polls revealed that the vast majority of publicly traded companies viewed fair corporate practices as the key to long-term success (Katsoulakos et al., 2004).

CSR IN OIL AND GAS INDUSTRY

Nowadays, the oil industry is a contentious area of discussion due to the numerous scandals that have had devastating effects on local communities and the environment (Frynas, 2009). One of the primary reasons why the oil and gas industry engage with CSR is due to negative evidence such as oil spills and the subsequent objections raised by civil society organizations and native people. For example, BP's oil spill in the Gulf of Mexico in 2010 was the largest oil spill disaster in the history of the United States. The amount of oil that was spilled was three times larger than the spill that Exxon Valdez caused in Alaska in 1989. This is an example that cannot be ignored because of its significant visibility.

On the other hand, it is undeniable fact that the oil and gas companies make contribution to society and environment. They make collaboration with United Nations Development Program (UNDP) and local non-governmental organizations (NGOs) to contribute to the community development such as the construction of schools and hospitals, the introduction of microcredit schemes for local residents, and the promotion of youth employment initiatives, particularly in developing nations (Winston, 2002).

After "Contract of the Century" in 1994, the oil and gas industry in Azerbaijan has been actively participating in CSR activities. The majority of their contributions to society were focused on areas like as education, culture, scientific research, community development, and assistance for those who were economically disadvantaged. Particularly, BP was the first oil company in Azerbaijan that issued annual sustainability reports which comprise social and environmental engagement.

METHODOLOGY

Document analysis is one the techniques of qualitative research method. It is a data gathering method that involves analyzing material from written documents in order to draw particular conclusions based on the study conditions (Babbie,

2014). Therefore, the secondary data is data gathered by the researcher in order to conduct document analysis. Furthermore, the available literature on corporate social responsibility is examined for the subject's theoretical foundations.

DOCUMENT ANALYSIS

BP's involvement in the region dates back to 1992 when the company began oil exploration in the area (BP, 2017). However, there is not much recorded data on issues falling within the scope of the CSR concept prior to the public release of sustainability reports by BP in 2003. The latter included only a few details concerning the period from 1992 to 2002 and focused mostly on BP's main business of oil exploration and extraction. However, BP has allocated the majority of its social investment expenditure to the Community investment program (CIP) since 2003. Its primary goal is to find, create, and implement programs that will help the local economy in places where BP has an impact. The CIP is geared toward delivering quick wins in the form of short-term projects that may then be expanded into self-sustaining long-term strategies.

As stated above, starting from 2003, BP has been publishing sustainability reports annually by giving more attention to environmental and social issues. The major focuses of BP's are:

People.

The success of BP relies on having a workforce that is highly skilled, talented, and motivated. Therefore, BP works hard to attract the talented people and to enhance the employees' skills and capacities (BP, 2019). Training young individuals with little or no past work experience, attracting fresh talent, and providing a variety of development and career possibilities to all employees at all levels of their careers can be considered as investments. Moreover, building a strong native workforce in Azerbaijan remains a top priority for BP. For instance, 91% of bp Azerbaijan's permanent professional workforce were nationals, while non-professional staff remained 100% nationalized in 2019. On the other hand, BP believes that reasonable proportion of overseas assignments to and from Azerbaijan is essential for diversity and growth. Furthermore, people development is another priority area for BP. For example, BP held a variety of safety, technical, managerial, and behavioral training programs around the region in 2019. Especially, the regional office arranged 1,000 of these, with almost 7,500 participants.

Safety.

BP considers crucial to develop a safe and healthy workplace in order to achieve success. Therefore, BP designed Operational Management System

(OMS) to assist in managing risks in the operating activities and driving performance enhancements (BP, 2019). BP's requirements on health, safety, security, the environment, social responsibility, and operational reliability, along with related issues such as maintenance, contractor relations, and organizational learning, are all brought together under the umbrella of OMS, which serves as a common management system.

Table 1 demonstrates the safety performance of BP Azerbaijan in the years of 2018 and 2019. As can be seen from Table 1, there were not any fatalities in those years. Moreover, the recordable injury frequency and total vehicle accidents rate went up in 2019. Unfortunately, there was not any explanation by BP Azerbaijan why these indicators increased. On the other hand, when compared to 2018, the amount of driving that BP did in 2019 was around 32 percent less.

Environment.

BP seeks to avoid, reduce, and mitigate environmental impacts where they conduct business. For example, BP continued to operate in compliance with the ISO14001 Environmental Management Systems standard and BP Compliance Management System in 2019 (BP, 2019). Moreover, BP also acknowledges the urgency of the energy transition and is actively addressing the dual issue of providing the world with more energy while reducing carbon emissions. Therefore, BP hosted several events in Azerbaijan to advance the low carbon agenda including, collaborative partnership program on flaring reduction with SOCAR in 2014-2015, a climate change agenda workshop in 2017, the "Advancing low carbon" awareness campaign held in 2017, the bp-Equinor workshop in May 2018, and the 'Keep advancing' and event in 2019.

Furthermore, BP implemented a life cycle approach to waste management with the goal of avoiding, minimizing, and reusing trash generated by the operations. For instance, BP generated 40% less total hazardous waste and 37% less non-hazardous waste in 2019 compare to the previous year. At last, BP has been in the practice of performing environmental monitoring studies in the areas surrounding our operational facilities and on the regional contract areas since 1995. These surveys are aimed on disclosing the health of the surrounding ambient environments around sites run by BP.

Society.

According to the sustainability reports, it is undeniable fact that BP engages with a wide range of stakeholders in Azerbaijan. It should be also noted that BP works with SOCAR on issues of mutual importance within the framework of production sharing agreements (PSAs), host

government agreements (HGAs) and other agreements (BP, 2018). BP initiated enterprise development program (EDP) in 2007, which assists local businesses with significant commercial potential in meeting international standards and improving market competitiveness. The long-term goal is to expand the number of local businesses that can provide products and services to the region's industry, thereby contributing to the growth of the local economy. Furthermore, by supporting development in Azerbaijan's business sector, BP contributes to construct a sustainable local supply chain for the Caspian area. For example, in 2019, BP conducted business with a total of 280 local suppliers, of whom 234 were small and medium-sized enterprises in Azerbaijan (BP, 2019).

Working with communities is very important as philanthropic responsibility of CSR. BP also seeks to have mutually beneficial partnerships with the communities surrounding its activities, based on open conversation and collaborative efforts to address community concerns. During the course of 2019, BP had more than 700 group and individual consultation meetings with a total of about 2,500 members of the community and other stakeholders. A total of 167 group meetings were held with the communities, and they covered a wide range of topics. These topics included updates on community development programs and social projects, as well as safety and security updates about the export pipelines.

Besides community development projects, BP also funds programs focusing on education, culture and sport. The objective of BP's participation is to build national competence in support of the energy industry in Azerbaijan. For example, "Supporting laboratories of Baku Engineering University", "ADA Baku Summer Energy School", "Publishing center at Baku State University", "Tomorrow's scientists' competition" held in 2019 to support education in Azerbaijan.

CONCLUSIONS

Petroleum industry is vital and the biggest industry of Azerbaijan. Over the years, oil make up important part of export profile of Azerbaijan. Therefore, CSR became necessary for oil and gas companies

BP publishes annual sustainability reports that demonstrates the CSR activities of the company. According to the annual sustainability reports that were published starting from 2003, BP is aware of their responsibilities towards the environment, safety, people and society. It should be also noted that they perform these activities within their CSR framework through international conventions and the partnership with the official institutions.

However, NGO relations are not clearly mentioned in the sustainability reports. As the company engage with community development, NGO relations should be included as well.

Secondly, the recordable injury frequency rose in 2019, however there is not any information and any improvement idea in order to tackle this problem in the report.

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LIST OF TABLES

Table 1
Safety performance of BP in Azerbaijan

	2018	2019
Fatalities	0	0
Recordable injury frequency	0.05	0.13
Hours worked (millions)	26.47	19.58
Total vehicle accidents rate	0.8	1.19
Kilometres driven (millions)	25.83	17.65

Source: BP Azerbaijan (2020)

LIST OF FIGURES

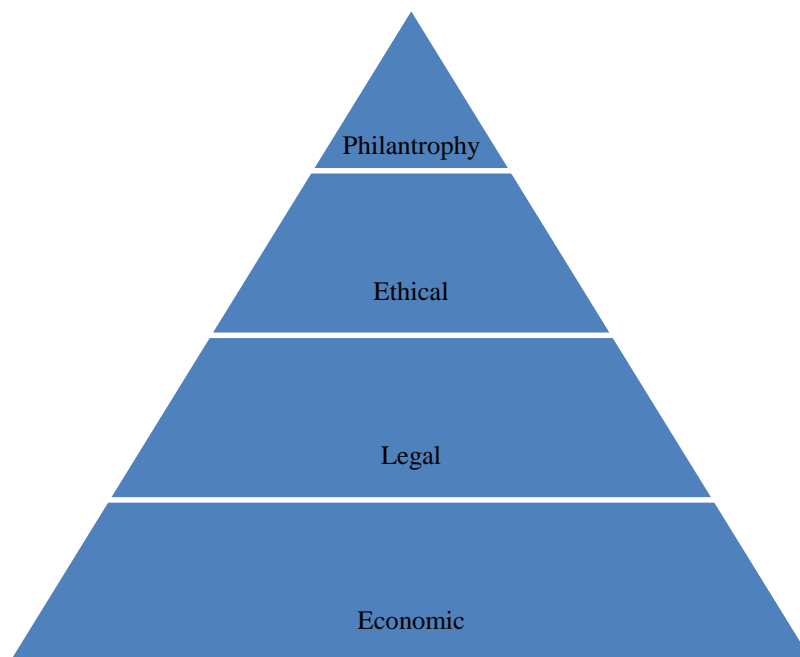


Figure 1
CSR Pyramid Model
Source: adapted from Carroll (1991, p.42)